

December 2001**2000 CENSUS****Analysis of Fiscal Year
2000 Budget and
Internal Control
Weaknesses at the
U.S. Census Bureau****G A O****Accountability * Integrity * Reliability**

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Abstract The decennial census is the nations most comprehensive and expensive data-gathering program. The Constitution requires a decennial census of the population in order to apportion seats in the House of Representatives. Public and private decisionmakers also use census data on population counts and social and economic characteristics for a variety of purposes. The 2000 decennial census covers a 13-year period of effort from fiscal years 1991 through 2003 at an estimated cost of \$6.5 billion. During fiscal year 2000, the U.S. Census Bureau mailed census forms (questionnaires) to almost 119 million American households asking the occupants to complete the forms as of April 1, 2000, and mail them back. The bureau reported that for some 42 million nonresponding households, it hired over 500,000 temporary workers, known as enumerators, to visit households that had not responded by April 18, 2000. 1 Enumerators gathered the requested information in slightly less than the planned 10-week period that ended July 2, 2000.		
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Abbreviations

ACE	Accuracy and Coverage Evaluation
APMS	Accountable Property Management System
CAMS	Commerce Administrative Management System
FASAB	Federal Accounting Standards Advisory Board
FFMIA	Federal Financial Management Improvement Act of 1996
FMFIA	Federal Managers' Financial Integrity Act of 1982
FTE	full-time equivalent
GAAP	generally accepted accounting principles
GAGAS	generally accepted government auditing standards
GSA	General Services Administration
IG	inspector general
JFMIP	Joint Federal Management Improvement Program
NPC	National Processing Center
OMB	Office of Management and Budget
PAMS/ADAMS	Pre-Appointment Management System and Automated Decennial Administrative Management System
SGL	<i>U.S. Standard General Ledger</i>



United States General Accounting Office
Washington, DC 20548

December 28, 2001

The Honorable Dan Miller
Chairman
The Honorable William Lacy Clay, Jr.
Ranking Minority Member
Subcommittee on the Census
Committee on Government Reform
House of Representatives

The Honorable Carolyn B. Maloney
House of Representatives

The decennial census is the nation's most comprehensive and expensive data-gathering program. The Constitution requires a decennial census of the population in order to apportion seats in the House of Representatives. Public and private decisionmakers also use census data on population counts and social and economic characteristics for a variety of purposes. The 2000 decennial census covers a 13-year period of effort from fiscal years 1991 through 2003 at an estimated cost of \$6.5 billion. During fiscal year 2000, the U.S. Census Bureau mailed census forms (questionnaires) to almost 119 million American households asking the occupants to complete the forms as of April 1, 2000, and mail them back. The bureau reported that for some 42 million nonresponding households, it hired over 500,000 temporary workers, known as enumerators, to visit households that had not responded by April 18, 2000.¹ Enumerators gathered the requested information in slightly less than the planned 10-week period that ended July 2, 2000.

On September 27, 2000, the bureau reported to the Congress that it had at least \$305 million of budget savings² out of its \$4.5 billion fiscal year 2000 no-year appropriation³ for the 2000 decennial census. As agreed with your

¹The bureau refers to this activity as "nonresponse follow-up."

²As used by the bureau, "budget savings" describes those budgetary resources that were not needed in fiscal year 2000 and are available to offset the bureau's fiscal year 2001 budget request. More broadly used, the term "budget savings" is used in the federal budget process to describe a downward change from either the Office of Management and Budget or Congressional Budget Office budget baselines.

³No-year funds are available for their original purpose until they are either expended, rescinded, transferred, or reprogrammed or the account is closed.

offices, this report responds to your joint request to review the accuracy of this reported amount and to identify budget variances for the 2000 decennial census, including the reasons for these variances.⁴ To fulfill this first objective, we examined planning and financial documents, conducted interviews with bureau personnel, audited all undelivered order⁵ balances of \$1 million or more, reviewed accounts payable and accrued liability accounts, and examined subsequent disbursements.⁶ However, we did not review the efficiency of expenditures and obligations against planned budget appropriations.

You also asked us to review key internal controls of the U.S. Census Bureau and to report on any significant weaknesses and how they might be corrected. To fulfill this second objective, we reviewed recent Department of Commerce financial reports that included bureau activities as well as separate financial reports of the bureau that have reported a number of weaknesses in internal controls, and examined internal controls over bureau undelivered orders and accounts payable. We also obtained financial system information and reviewed financial policies in other selected areas that are presented in appendix III.

Our work was performed from December 2000 through June 2001 in accordance with U.S. generally accepted government auditing standards. Further details on our scope and methodology are presented in appendix I. This report is one of several we will issue in the coming months on lessons learned from the 2000 census that can help improve the planning effort for the 2010 census.

Results in Brief

Of the \$4.5 billion appropriated to the U.S. Census Bureau for periodic censuses and programs in fiscal year 2000, lower expenditures and obligations than planned resulted in available balances of at least \$415 million. Since these no-year funds remain available until expended,

⁴Budget variances represent the difference between estimated amounts from all available appropriations and actual obligations for fiscal year 2000.

⁵Undelivered orders represent the value of goods and services that have been obligated but that have not been received. If all deliveries have been made and accepted, any unused amounts should be deobligated.

⁶Subsequent disbursements are examined to search for goods or services that have been delivered prior to year-end that should also be recorded as accounts payable or other accrued liabilities as of year-end.

and the Department of Commerce has the authority to transfer amounts to other programs, \$360 million of this amount was carried over and made available for fiscal year 2001 bureau programs. The remaining \$55 million represented amounts obligated for contracts for which activity had been completed. These funds potentially can be deobligated and made available for other programs. Additional amounts may be identified for deobligation as the bureau closes out about \$90 million of undelivered order balances under \$1 million that we did not review.

The primary reason for the available balances was a lower support staff workload than planned. This resulted in about \$348 million of lower salary and benefit costs for over 11,000 fewer support staff than planned. The lower support workload also reduced infrastructure costs for temporary office space rental, equipment and supply costs, and contractual services that resulted in further available balances of \$167 million. This included lower local travel reimbursement because fewer households were visited than planned.

Enumerator workload is largely determined by the initial mail response rate for returned census questionnaires. The initial mail response of 64 percent, 3 percent higher than the 61 percent estimated by the bureau, resulted in over 3 million American households less than planned that did not require visits by census enumerators. However, the available balances from the higher mail response rate and the lower support staff workload were partially offset by about \$100 million of higher salary and benefit costs for enumerators, including a higher workload for unanticipated recounts. The bureau was concerned about high staff turnover and having a sufficient number of enumerators for nonresponse follow-up in a tight labor market. As a result, the bureau hired almost 3,300 more full-time equivalent enumerators and paid them almost \$1 an hour more than the average \$11.77 an hour that was planned. In addition, enumerator workload was increased due to unanticipated recounts of almost 800,000 incomplete, lost, or inaccurate questionnaires.

According to bureau data, enumerator productivity did not have a significant impact on budget variances for the 2000 decennial census. The bureau reported the national average time to visit a household and complete a census questionnaire was about the 1 hour estimated.

With regard to our second objective, the bureau had significant internal control weaknesses for fiscal year 2000 that resulted in an inability to develop and report complete, accurate, and timely information for management decision-making. This was due to specific internal control

weaknesses as well as a weak overall internal control environment at the bureau. The bureau's control environment was characterized by human capital weaknesses, including the lack of experienced accounting staff, which contributed to heavy reliance upon contractors. In addition, management oversight was not sufficient to ensure adherence to established policies and procedures, which created opportunities for inconsistencies and errors, particularly in year-end closing procedures and financial statement preparation.

Specific control weaknesses for fiscal year 2000 were related to the lack of controls over financial reporting and financial management systems. Financial reporting issues included (1) the inability to produce accurate and timely financial statements and other financial management reports needed for oversight and day-to-day management, (2) the lack of timely and complete reconciliations needed to validate the balances of key accounts, and (3) unsupported and inaccurate reported balances for accounts payable and undelivered orders, two key accounts needed to manage and report on unliquidated obligations. These findings were in large part due to serious weaknesses in the bureau's financial management systems, which encompass the software, hardware, personnel, manual and automated processes, procedures, controls, and data necessary to carry out financial management functions, manage financial operations, and report financial status.

The bureau has experienced persistent financial management systems problems for many years and has candidly acknowledged the material nonconformance of its financial systems in recent annual reports required by the Federal Managers' Financial Integrity Act of 1982 (FMFIA).⁷ Despite these reports, the bureau has asserted in its fiscal years 1999 and 2000 financial statement reports that its financial management systems were in substantial compliance with the provisions of Federal Financial Management Improvement Act of 1996 (FFMIA).⁸ In our view, the bureau's

⁷31 U.S.C. 3512 (c), (d), commonly referred to as FMFIA, requires federal agencies to annually self assess their management controls and disclose any material weaknesses and assess their financial systems and disclose any noncompliance with standards prescribed by the Comptroller General. The U.S. Census Bureau reports its FMFIA information to the Department of Commerce, which discloses all weaknesses departmentwide in its annual accountability report.

⁸FFMIA was intended to advance federal financial management by ensuring that federal financial management systems can and do provide reliable, timely, and consistent disclosure of financial data across the federal government.

financial management systems did not substantially comply with the requirements of FFMIA as of September 30, 2000.

We are recommending a number of actions to improve U.S. Census Bureau policies, procedures, internal controls, and preparation of its financial statements. In commenting on a draft of this report, the Department of Commerce, U.S. Census Bureau, agreed with five of our seven recommendations and made a number of specific comments on our findings. The most significant disagreement related to our assessment that the bureau's financial management systems did not substantially comply with the requirements of FFMIA as of September 30, 2000. We believe that our findings, as well as those of the bureau's independent auditor, provide ample evidence that the systems did not substantially comply with the act's three primary requirements. These issues are addressed in the "Agency Comments and Our Evaluation" section of this report. The full text of the bureau's letter is reprinted in appendix IV, which also includes our evaluation of the bureau's specific comments.

Background

The U.S. Census Bureau performs large surveys and censuses that provide statistics about the American people and the U.S. economy. The business activities of the bureau can be divided into four categories: decennial and other periodic census programs, demographic programs, economic programs, and reimbursable work programs that are conducted mainly for other federal agencies. During fiscal year 2000, the bureau conducted the actual decennial count of U.S. population and housing as of April 1, 2000, which is its largest and most complex activity. The results of the 2000 decennial census are used to apportion seats in the U.S. House of Representatives, draw congressional and state legislative districts, and form the basis for the distribution of an estimated \$200 billion annually of federal program funds over the next decade to state and local governments.

Census Appropriations

The bureau receives two appropriations from the Congress: (1) salaries and expenses and (2) periodic censuses and programs. The salaries and expenses appropriation provides 1-year funding for a broad range of economic, demographic, and social statistics. The periodic censuses and programs appropriation provides no-year funding to plan, conduct, and analyze the decennial censuses every decade and other authorized periodic activities. The 2000 decennial census covers a 13-year period of effort from fiscal years 1991 through 2003 at an estimated cost of \$6.5 billion. The bureau prepared its fiscal year 2000 budget request for the

2000 decennial census in eight broad “frameworks” of effort that were submitted to the Office of Management and Budget (OMB) and the Congress. As part of the Department of Commerce and Related Agencies Appropriation Act, 2000, the appropriation for Periodic Censuses and Programs earmarked \$4.476 billion by framework for the bureau and the Census Monitoring Board to remain available until expended.⁹ While these amounts were earmarked for the frameworks, section 205 of the act authorized the Department of Commerce to transfer amounts not to exceed 5 percent of any appropriation to another appropriation, but no appropriation could be increased by more than 10 percent. Section 205 also required the Department of Commerce to comply with the procedures set forth for reprogramming under section 605 of the act.¹⁰ For management, program, financial, staffing, and performance purposes, the 8 frameworks were further divided by the bureau into 23 activities and within these activities, further divided into 119 projects. Bureau financial management reports provided appropriated amounts, expended and obligated amounts, and variances to a project level.

The President’s fiscal year 2000 budget, which was submitted by OMB to the Congress on February 1, 1999, included nearly \$2.8 billion for the bureau to perform the 2000 decennial census. This original budget request reflected the bureau’s plan to gather information based in part on statistical estimation for nonresponding households and to adjust undercounting and other coverage errors. However, only a few days earlier on January 25, 1999, the Supreme Court, in *Department of Commerce v. U.S. House of Representatives* (525 U.S. 316), held that the Census Act prohibited the bureau from using statistical sampling for purposes of congressional apportionment. Because the original budget

⁹The Department of Commerce and Related Agencies Appropriations Act, 2000, is Title II of Appendix A of the Consolidated Appropriations Act for Fiscal Year 2000, P.L. 106-113, 113 Stat. 1501, 1501A-26 (1999). Amounts earmarked for the eight frameworks were: \$20 million for Program Development and Management (framework 1); \$195 million for Data Content and Products (framework 2); \$3.450 billion for Field Data Collection and Support Systems (framework 3); \$44 million for Address List Development (framework 4); \$477 million for Automated Data Processing and Telecommunication (framework 5); \$16 million for Testing and Evaluation (framework 6); \$71 million for activities related to Puerto Rico, the Virgin Islands, and Pacific Areas (framework 7); \$199 million for Marketing, Communications and Partnerships activities (framework 8); and \$4 million for the Census Monitoring Board.

¹⁰Section 605 procedures for reprogramming funds require the Department of Commerce to notify the Appropriations Committees of both Houses of Congress 15 days in advance of reprogramming. However, the appropriation for Periodic Censuses and Programs established a 3-day notification period for reprogramming funds provided by the appropriation.

request was submitted with the plans for statistical sampling, the bureau had to amend its plans in accordance with the Supreme Court's decision. According to the bureau, the effect of this decision was that an estimated 12 million additional nonresponding households would require visits by enumerators. In addition, various programs designed to address undercounting and other coverage errors would have to be expanded. The bureau also planned to visit about 4 million additional addresses for which the Postal Service had returned the questionnaires because it believed the housing units to be vacant or nonexistent.

In light of the need for additional enumeration and other programs to ensure accuracy, OMB requested and the Congress approved additional funding of \$1.7 billion to the bureau's original budget request of \$2.8 billion. The bureau's total fiscal year 2000 appropriation of about \$4.5 billion for the 2000 decennial census was within the periodic censuses and programs account.

Annual Financial Statement Audit

The preparation of annual financial statements by federal agencies and their subsequent audit is intended to provide for complete, reliable, timely, and consistent financial information for use by agency management and the Congress in the financing, management, and evaluation of federal programs. The Department of Commerce is required to prepare annual consolidated financial statements and have them audited under the mandate of the Chief Financial Officers Act of 1990, as expanded by the Government Management Reform Act of 1994. The Commerce IG is responsible for the financial audit but may use its contract authority to hire an independent accounting firm to perform the audit. Commerce consists of 13 bureaus, including the U.S. Census Bureau. The Commerce IG contracted with several certified public accounting firms to conduct financial audits of the various bureaus for fiscal year 2000.

OMB provides implementing guidance for agencies, including guidance on preparing and auditing financial statements.¹¹ This guidance requires that financial statements be prepared in accordance with U.S. generally accepted accounting principles (GAAP)¹² and the audit of such financial

¹¹OMB Bulletin No. 97-01, *Form and Content of Agency Financial Statements*, as amended, and OMB Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

¹²The Federal Accounting Standards Advisory Board promulgates GAAP for federal government entities.

statements must be in accordance with generally accepted government auditing standards (GAGAS).¹³ GAGAS require the auditor to obtain an understanding of internal controls to plan the audit and determine the nature, timing, and extent of tests to be performed and to report deficiencies considered to be reportable conditions as defined in the auditing standards.¹⁴ Some reportable conditions are material weaknesses¹⁵ and all reportable conditions are presented in a report on internal controls. Lesser internal control or operational matters are usually reported in separate management letters. Criteria for internal controls are contained in GAO's *Standards for Internal Control in the Federal Government*.¹⁶

The Federal Financial Management Improvement Act of 1996 (FFMIA) requires that agencies implement and maintain financial management systems¹⁷ that substantially comply with federal financial management systems requirements, applicable GAAP, and the *U.S. Standard General Ledger* (SGL) at the transaction level. As part of the annual financial statement audit, FFMIA requires the auditors to report any instances in which they noted that the agency's financial management systems did not substantially comply with FFMIA requirements.

¹³GAO promulgates GAGAS that incorporate American Institute of Certified Public Accountants fieldwork and reporting standards for financial audits by reference.

¹⁴A reportable condition includes matters coming to the auditor's attention, that, in the auditor's judgment, should be communicated because they represent significant deficiencies in the design or operation of internal controls, which could adversely affect the entity's ability to meet the internal control objectives described in the report.

¹⁵A material weakness is a reportable condition in which the design or operation of the internal controls does not reduce to a relatively low level the risk that losses, noncompliance, or misstatements in amounts that would be material in relation to the financial statements may occur and not be detected within a timely period by employees in the normal course of their assigned duties.

¹⁶[GAO/AIMD-00-21.3.1](#), November 1999.

¹⁷Under OMB Circular A-127, *Financial Management Systems*, revised July 23, 1993, each agency must establish and maintain a single, integrated financial management system that is a unified set of financial systems that are planned for and managed together. They are operated in an integrated fashion and are linked together electronically in an efficient and effective manner to provide agencywide system support necessary to carry out an agency's mission and support its financial management needs.

Budget Variances Were at Least \$415 Million

Of the \$4.5 billion appropriated to the U.S. Census Bureau for fiscal year 2000, lower expenditures and obligations than planned resulted in available balances of at least \$415 million. These no-year funds remain available until expended, and the Department of Commerce has the authority to transfer amounts to other programs. By April 2001, \$360 million of this amount was made available for fiscal year 2001 bureau programs. We identified the remaining \$55 million that represented amounts obligated for contracts for which activity had been completed. These funds potentially can be deobligated and made available for other programs. Additional amounts may be identified for potential deobligation as the bureau examines about \$90 million of undelivered order balances under \$1 million.

Fiscal Year 2000 Funds Available for Fiscal Year 2001 Were \$360 Million

On September 27, 2000, the bureau reported to the Congress that it had “at least \$305 million of budget savings” out of its \$4.5 billion fiscal year 2000 appropriation for the 2000 decennial census. Based in part upon our discussions with the Chairman and staff of the Subcommittee on the Census, House Committee on Government Reform, and staff of the Senate and House Committees on Appropriations, and as authorized by law, unobligated fiscal year 2000 appropriations were made available for other census programs. By April 2001, \$360 million of unobligated fiscal year 2000 appropriations were made available for fiscal year 2001 bureau programs in two phases.

- In December 2000, based upon information the bureau provided to the House Committee on Appropriations, \$300 million of unobligated balances from prior years were used to offset the amount needed for the bureau’s fiscal year 2001 appropriation. From this amount, \$260 million was used to fund the decennial census program and \$40 million was used to fund other periodic census programs for fiscal year 2001.
- On March 27, 2001, the bureau identified an additional \$60 million of unobligated balances from fiscal year 2000 funds. On April 11, 2001, \$56 million was used to fund the decennial census program and \$4 million was used to fund other periodic census programs for fiscal year 2001.

Potential Deobligation of \$55 Million From Undelivered Orders

From our test of all bureau undelivered order balances over \$1 million, which totaled \$367 million as of September 30, 2000, we identified potential deobligations of \$55 million. This resulted from contracts for which activity had been completed and obligated balances were not needed to close out the contracts. Thus, amounts can be made available for other purposes. An agency should identify and deobligate funds no

longer needed after the agency is certain no related costs remain. Table 1 shows the contractor, the applicable framework number within the bureau's eight frameworks of effort, and the potential amount available for deobligation.

Table 1: September 30, 2000, Undelivered Orders Available for Potential Deobligation

Dollars in millions		
Contractor	Framework	Amount
Lockheed Martin	5	\$16
TRW Incorporated	5	13
General Services Administration	3	12
Young & Rubicam	8	7
Electronic Data Systems Corporation	3	6
UNISYS Corporation	3	1
Total		\$55

Source: GAO analysis of U.S. Census Bureau undelivered orders files.

The contracts we identified as of September 30, 2000, were multiple phase or task contracts with future completion dates stretching to December 31, 2003. Bureau officials stated that its Finance Division conducted a quarterly review of contracts for deobligation. We found these reviews to be ineffective because we noted several contracts for which the bureau was not promptly deobligating amounts associated with completed contracts. In our view, some contracts should have been deobligated as of September 30, 2000, while other contracts were completed and amounts were available for potential deobligation by the time we completed our review in June 2001. Specifically, we found the following.

- Lockheed Martin provided services in three phases that included (1) the architectural design, testing, and implementation of a data capture system, (2) deployment of this system to data capture centers, and (3) preparation of images for transfer to long-term storage. Services for phase one were completed on September 30, 1998, phase two by February 28, 2001, and phase three is to be completed by December 31, 2003. Most of the remaining funding of \$16 million related to phase two was no longer needed and was available for potential deobligation by the time we completed our review in June 2001.
- TRW Incorporated provided services to design and staff the data capture centers. The last of these services were completed in June 2001, and sufficient amounts were obligated to close out the contract. Remaining

obligated amounts of \$13 million were no longer needed and were available for potential deobligation by June 30, 2001.

- The General Services Administration (GSA) rented building space and provided other services. One GSA communication service agreement for over \$1 million for fiscal year 2000 was never performed under the planned project. Also, about \$5 million obligated for rent and another \$6 million obligated for services were not needed after the contract's period of performance ended on December 31, 1999. This resulted in total funding of \$12 million that was no longer needed for the purpose intended. Since the period of performance had ended and there was no further billing on these contracts after September 30, 2000, we believe that this \$12 million should have been deobligated as of September 30, 2000.
- Young & Rubicam provided advertising to promote the 2000 census and encourage people to complete and return the census forms and cooperate with enumerator follow-up. The contract also required a follow-up study on the effect of the advertising that was completed by February 2001. About \$7 million remained obligated for the advertising campaign that was no longer needed after May 31, 2000. We believe that this amount should have been deobligated as of September 30, 2000.
- Electronic Data Systems Corporation staffed the telephone questionnaire assistance center and provided other services with a contract through May 31, 2001. The assistance center was shut down on August 13, 2000. Other services were completed by May 31, 2001, and sufficient amounts remained obligated to close out the contract. The remaining \$6 million was available for potential deobligation as of May 31, 2001.
- UNISYS Corporation provided telecommunications equipment and other services for the local census offices with a contract through October 31, 2000. The last of these offices was closed down in early November 2000, and sufficient amounts remained obligated to close out the contracts. We believe that the remaining unused contract funding of \$1 million could have been deobligated as of September 30, 2000, during the subsequent year-end closing process.

Additional amounts may be identified for deobligation as the bureau closes out about \$90 million of undelivered order balances under \$1 million that we did not review.

Lower Workload and Costs Generated Budget Variances

Historically, workload and enumerator productivity have been two of the largest drivers of census costs, and the bureau developed its budget for the 2000 decennial census using a model that contained key assumptions about these two variables. The largest cause of the fiscal year 2000 available balances was a lower support staff workload than planned. This

resulted in about \$348 million of lower salary and benefit costs for over 11,000 fewer support staff than planned. The lower support workload also reduced infrastructure costs for temporary office space rental, equipment and supply costs, and contractual services that resulted in further available balances of \$167 million. However, these available balances were partially offset by about \$100 million of higher salary and benefit costs than planned for enumerators, including a higher workload for unanticipated recounts.

Budget Variances by Framework

The U.S. Census Bureau prepared its fiscal year 2000 plan for the 2000 decennial census in eight frameworks of effort as shown in table 2.

Table 2: Fiscal Year 2000 Budget Variances by Framework			
Dollars in millions			
Framework number and title	Appropriation ^a	Obligated	Budget variances
1. Program Development and Management	\$22	\$22	\$0
2. Data Content and Products	222	222	0
3. Field Data Collection and Support Systems	3,385	3,043	342
4. Address List Compilation	50	45	5
5. Automated Data Processing and Telecommunications Support	512	464	48
6. Testing, Evaluation, and Dress Rehearsal	16	13	3
7. Puerto Rico, Virgin Islands, and Pacific Areas	65	57	8
8. Census Marketing, Communication, and Partnerships	200	191	9
Census Monitoring Board	4	4	0
Total	\$4,476	\$4,061 ^b	\$415

^aThese amounts are after transfers between earmarked funds described in footnote 9.

^bThe bureau amount is \$4,116 million before potential deobligation of \$55 million from table 1.

Source: GAO analysis of U.S. Census Bureau data.

As indicated above, framework 3, Field Data Collection and Support Systems, was the largest effort of the 2000 census, amounting to about 75 percent of both appropriated funds and expended and obligated funds and accounting for 82 percent of total budget variances. Significant reasons for the larger budget variances are discussed in the following sections.

Budget Variances in Support Staff Salary and Benefit Costs

A lower support staff workload than planned in framework 3 resulted in a significant budget variance of about \$348 million in salary and benefit costs as follows.

The bureau recognized \$309 million for lower local and regional census office support staff salaries and benefits. The bureau planned about 30,167 full-time equivalent (FTE) support staff for 520 local and 12 regional census offices. However, according to bureau records, only 18,787 FTEs or about 62 percent were actually employed, resulting in over 11,000 fewer FTEs than planned.

The bureau recognized \$39 million primarily for lower staff salaries and benefit costs from an activity known as Accuracy and Coverage Evaluation (ACE). ACE interviewed more people than planned by telephone, thus reducing the need for household visits by enumerators.

Further Budget Variances in Infrastructure and Other Costs

Another \$167 million of budget variances were primarily due to lower infrastructure costs and other costs. This included temporary office space rental, local travel reimbursement, equipment and supply costs, and contractual services that were contained mostly in frameworks 3 and 5. Projects with significant budget variances—over \$10 million—included the following.

- The variance for data capture systems, building rent, advertising, telecommunications, and other contractual services was about \$55 million. This amount in table 1 was previously discussed as undelivered orders available for potential deobligation.
- The variance for regional and local census offices in framework 3 was about \$36 million. This was the result of lower support staffing levels and resulted in lower temporary office space and equipment costs than planned.
- The variance for telecommunications in framework 3 was about \$31 million. This was due to renegotiations of a 90-percent reduction in long-distance phone costs from a planned 10 cents a minute to an actual 1 cent a minute.
- The variance for National Processing Center (NPC) data capture operations in framework 5 was about \$22 million. This was because there were fewer forms to process than planned for, and there was higher productivity for data entry. About 5 million fewer mail back, enumerator, and group quarters forms were processed, and data entry productivity of 6,500 keystrokes per hour was higher than 5,200 keystrokes per hour planned.

-
- The variance for telephone questionnaire assistance in framework 3 was about \$14 million. This was due to lower contract costs in running the program because inbound calls of 6 million were 45 percent lower than the 11 million calls planned.
-

Higher Enumerator Costs Partially Offset Budget Variances

Enumerator workload is largely determined by the initial mail response rate for returned census questionnaires. By April 27, 2000, when the bureau prepared its assignment lists for the start of follow-up operations, the response rate was 64 percent—3 percent higher than the 61-percent rate estimated by the bureau.¹⁸ Considering that a 1-percent change in the response rate represents about 1.2 million households, the 3-percent difference was significant since over 3 million households would not require follow-up visits by enumerators. Although the additional forms were received after the start of nonresponse follow-up, they served as a cross-check to information gathered by enumerators. The bureau attributed the higher response rate, in part, to a professional advertising campaign that it conducted under framework 8, which urged people to return the questionnaires and cooperate with census enumerators.

However, budget variances from the higher mail response rate and the lower support staff workload were partially offset by over \$100 million of higher salary and benefit costs than planned for enumerators in framework 3, including a higher workload for unanticipated recounts. Enumerator efforts and costs for fiscal year 2000 are presented in table 3.

¹⁸Initial bureau data on the postcensus mail return rate—which is a more precise indicator of public cooperation—was 72 percent, a decline of 2 percentage points from the 74-percent mail return rate the bureau achieved in 1990. (The bureau's figures are preliminary and subject to verification upon receipt of final data.) See *2000 Census: Better Productivity Data Needed for Future Planning and Budgeting* (GAO-02-4, October 4, 2001).

Table 3: Enumeration Effort and Costs for Fiscal Year 2000

Dollars in millions			
Framework 3: Enumerator effort	Appropriation	Obligated	Over (under) appropriation
Nonresponse follow-up: household visits	\$1,092	\$1,179	\$87
Nonresponse follow-up: assignment, control, and coverage improvement	154	253	99
Other enumerator workload	175	89	(86)
Total	\$1,421	\$1,521	\$100

Source: GAO analysis of U.S. Census Bureau data.

Enumerator Visits. Enumerators visited almost 42 million American households during the 10-week nonresponse follow-up period that ended July 2, 2000. This effort resulted in about \$87 million of higher enumerator salaries and benefits in framework 3 than planned. This occurred because the bureau was concerned about high staff turnover and having a sufficient number of enumerators in a tight labor market to complete nonresponse follow-up in a shortened 10-week period compared to the 14-week period for the 1990 census. To address this issue, the bureau adopted a front-loaded staffing strategy, which resulted in the bureau hiring and training more temporary personnel up front to reduce the 150-percent staff turnover estimated for the 2000 census.¹⁹ This staffing strategy increased salary and benefit costs of temporary personnel, as well as training, quality assurance, and supervisory staffing costs. Also, the bureau hired almost 3,300 more FTE enumerators and paid them almost \$1 an hour more than the average \$11.77 an hour that was planned. In addition, enumerator workload increased due to unanticipated recounts of almost 800,000 incomplete, lost, or inaccurate questionnaires as follows.

- Over 600,000 returned questionnaires were incomplete because they did not indicate the number of persons living in the household, and the households had to be visited.
- About 122,000 questionnaires were lost between completion by local census offices and processing by the data capture centers, and enumerators had to revisit each household and complete another questionnaire.

¹⁹The bureau is currently evaluating staffing issues, including determination of staff turnover for the 2000 census.

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- About 68,000 questionnaires were recounted in three Florida local census offices because serious errors and irregularities were detected, including enumerator falsification of census data. In September 2000, the Commerce IG conducted an investigation and issued a report indicating that the offices had not followed proper procedures and quality controls, and concurred with the bureau's response to recount the areas in question.²⁰

Enumerator Assignment, Control, and Coverage Improvement. This effort resulted in about \$99 million of higher salary and benefit costs in framework 3 for nonresponse follow-up than planned. This included assigning and scheduling enumerators, preparing information packages for household visits, and verifying addresses. These higher costs included the reprocessing of the almost 800,000 incomplete, lost, and inaccurate questionnaires that were recounted by enumerators, as well as an unanticipated effort to verify 1.5 million new addresses as vacant.

Other Enumerator Workload. This effort offset the above budget variances by about \$86 million in framework 3 due primarily to the following.

- Service-based enumeration was conducted in soup kitchens, homeless shelters, and areas frequented by persons with no fixed addresses. This effort resulted in about \$32 million of budget variances. According to the bureau, about 69,000 sites were estimated for this project based upon national and local data. However, only about 14,000 actual sites, or about 20 percent of the planned workload, were actually identified and counted. According to the bureau, this occurred because the majority of sites estimated did not exist based upon enumerator visits.
- Group quarters enumeration was conducted in places like prisons, nursing homes, military barracks, and school dormitories. This effort resulted in about \$31 million of budget variances. According to the bureau, about 519,000 units were estimated for this project. However, only about 172,000 actual units, or one-third of the expected amount, were actually identified and counted. According to the bureau, this occurred because addresses for estimated sites erroneously included businesses, commercial establishments, and duplications, or simply did not exist.
- List enumeration was conducted in areas where households do not receive direct mail delivery, such as rural areas where mail is sent to a local post office box. This effort resulted in about \$8 million of budget variances.

²⁰ Final Audit Report ESD-13215-0-0001, September 2000.

According to the bureau, about 500,000 housing units were estimated for this project. However, only about 372,000 actual units, or about 75 percent of the planned workload, were actually identified and counted. According to the bureau, this occurred due to inaccurate address lists.

Further details and explanations for 27 project budget variances with a minimum threshold of \$5 million or more are presented in appendix II. These 27 variances represented over 90 percent of the budget variance of \$415 million for fiscal year 2000.

Enumerator Productivity Did Not Affect Budget Variances

Historically, enumerator productivity has been a factor affecting decennial census costs. Although the bureau has been trying to improve productivity, data from past decennial censuses has been largely unavailable, incomplete, or not comparable.²¹ According to recent bureau data, enumerator productivity did not have a significant impact on budget variances for the 2000 decennial census because the actual national average time to visit a household and complete a census questionnaire was about the 1 hour estimated by the bureau. Information on enumerator productivity rates by type of local census office, the bureau's methodology for refining the productivity data, and lessons learned to assist the planning effort for the 2010 census is presented in a recent GAO report.²²

Weaknesses in Key Internal Controls

For fiscal year 2000, the U.S. Census Bureau had significant internal control weaknesses that resulted in an inability to develop and report complete, accurate, and timely information for management decision-making. This was due to specific internal control weaknesses as well as the bureau's overall internal control environment being assessed as high risk by its independent auditor. The bureau's control environment was characterized by human capital weaknesses, including the lack of experienced accounting staff, which contributed to heavy reliance upon contractors. In addition, management oversight was not sufficient to ensure adherence to established policies and procedures, which created opportunities for inconsistencies and errors, particularly in year-end closing procedures and financial statement preparation.

²¹*Decennial Census: Historical Data on Enumerator Productivity Are Limited* (GAO-01-208R, January 5, 2001).

²²*2000 Census: Better Productivity Data Needed for Future Planning and Budgeting* (GAO-02-4, October 4, 2001).

The specific control weaknesses for fiscal year 2000 were related to the lack of controls over financial reporting and financial management systems. Financial reporting issues included (1) the inability to produce accurate and timely financial statements and other financial management reports needed for oversight and day-to-day management, (2) the lack of timely and complete reconciliations needed to validate the balances of key accounts, and (3) unsupported and inaccurate reported balances for accounts payable and undelivered orders, two key accounts needed to manage and report on unliquidated obligations. For financial management systems, the bureau has experienced persistent financial management systems problems for many years and has candidly acknowledged the material nonconformance of its financial systems in annual reports required by FMFIA. Despite these reports, the bureau has asserted in its fiscal years 1999 and 2000 financial statement reports that its financial management systems were in substantial compliance with the provisions of FFMIA. In our view, the bureau's financial management systems did not substantially comply with the requirements of FFMIA as of September 30, 2000.

The Bureau's High-Risk Internal Control Environment

Internal controls are a major part of managing an organization to meet mission goals, support performance measures, and safeguard assets. GAO's *Standards for Internal Control in the Federal Government* emphasize that a positive internal control environment provides discipline, structure, and a climate that forms a foundation for effective internal controls. We concurred with an assessment of the bureau's overall internal control environment by its auditor as high risk for fiscal year 2000.²³ This assessment was contained in the auditor's work papers, which cited a human capital issue in the bureau's lack of experienced accounting staff, heavy reliance upon contractors, and insufficient management oversight and review. The auditor reported and we observed during our work that the bureau

- did not have a sufficient number of experienced accountants familiar with the financial statement process;

²³The control environment incorporates bureau management's attitude, awareness, and actions concerning its internal controls. The auditor's assessment of risk affects the nature, timing, and extent of audit testing to be performed.

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- relied extensively on contractors to reconcile its accounts, close its books after millions of dollars of year-end adjustments, and prepare its annual financial statements and related disclosures; and
 - did not ensure that account reconciliations were properly reviewed by bureau management.

Further, the auditor noted that the bureau's policies and procedures were not consistently adhered to, which created opportunities for inconsistencies and errors, particularly in year-end closing procedures and financial statement preparation. During our work, we concurred with the auditor's observations and noted that the overall control environment was impaired by the lack of management oversight to ensure that policies and procedures were followed. We also found that the bureau did not have an internal review function designed to assist management in identifying areas where adherence to policies and procedures could be improved.

For example, the bureau established a written policy for determining proper cutoff at year-end to identify accounts payable and other liabilities when goods or services had been delivered but not yet paid. This is necessary to fairly present account balances in accordance with GAAP. However, we found that bureau accounting personnel frequently did not adhere to the policy and used the date of the invoice to determine the appropriate accounting period rather than the date that goods, and particularly services, were delivered. Accounting personnel used the wrong date even though most invoices we examined for services clearly indicated the date that services were actually received.

Given the overall weaknesses in the bureau's control environment, it is not surprising that the independent auditors and we identified significant control weaknesses in two broad categories: (1) financial reporting and (2) financial management systems.

Weaknesses in Financial Reporting

Weaknesses in the bureau's financial reporting affect the internal and external reports produced by the bureau for both oversight and day-to-day management. These problems relate to the bureau's ability to produce timely and accurate financial statements and other financial reports, perform reconciliations to validate accounts, and report accurate amounts for key accounts including accounts payable and undelivered orders.

Difficulties in Preparing Financial Statements and Other Reports. The bureau stated in its 1999 and 2000 FMFIA reports that it did not have adequate procedures in place to produce timely or accurate financial

statements and related performance data. This weakness seriously affected the bureau's ability to conform with GAAP. In these reports, the bureau also acknowledged a need for a proper analysis of its financial reports to ensure the completeness of disclosures and the adequacy of the presentation of financial information. A contributing factor to this weakness is the human capital issue previously discussed as part of the control environment coupled with systems weaknesses as presented in the next section. The bureau's auditor noted the following conditions with which we concur.

- The bureau continues to experience significant difficulties and delays in producing complete and accurate financial statements. The auditor reported this condition as a material weakness in its internal control reports on the bureau for fiscal years 1999 and 2000.
- Numerous technical and clerical errors were found, including inconsistencies in the form and content of the financial statements and related notes. Because of these difficulties, the bureau's financial statements were manually compiled instead of being generated directly from its financial management systems.
- Compounding the potential for error, adjustments to the financial statements must be posted manually and each adjustment must be crosswalked to the financial statements instead of being posted directly by the financial management systems. For example, the bureau did not post a fourth quarter 2000 entry to deferred revenue and accounts receivable balances, which resulted in a material overstatement of these accounts in its draft financial statements.

Further, the bureau was unable to use its financial management system to produce required Treasury reports such as the *Statement of Transactions* (SF-224) and *Report on Budget Execution and Budgetary Resources* (SF-133). The bureau prepared these reports manually, which required additional time and effort to meet due dates and increased opportunities for error.

Ineffective Reconciliations. The lack of adequate account reconciliation seriously affected the ability of the bureau to prepare timely and accurate financial statements at year-end. The bureau stated in its 1999 and 2000 FMFIA reports that it did not promptly reconcile its financial information system with its subsidiary records. The bureau also reported that when reconciliations were performed, it did not sufficiently document and account for all reconciling items. According to the bureau, critical reports required to prepare the financial statements from the financial management systems were not fully developed as part of the standard

reporting package. In addition, the bureau's auditor reported and we concur with the following findings.

- Many key financial statement balances in the general ledger were not reconciled by the bureau to supporting subsidiary records in a timely manner through the first 6 months of fiscal year 2000. The auditor reported this condition as a material weakness in its internal control reports on the bureau for fiscal years 1999 and 2000.
- Bureau accountants who performed reconciliations were unfamiliar with the nature and details of the accounts they were reconciling and the reconciliations were not adequately supported. The auditor noted that for the last half of fiscal year 2000, the bureau resorted to hiring contractors to perform many of the monthly reconciliations. This resulted in most balances being adequately supported and reviewed by year-end.
- Deferred revenue and accounts receivable, however, were not properly reconciled throughout the year. The bureau's Division of Finance did not reconcile financial transactions with information from program offices, and folders by reimbursable project did not contain adequate information on amounts collected from customers or accumulation of costs for projects. Without proper and timely accounting, collections are subject to increased risk of loss or theft. The bureau did not update cash balance reports throughout the fiscal year and did not bill a large amount of work to customers in a timely manner, impeding timely collection efforts. Additionally, accounts receivable from the public for economic and demographic data were not aged properly and the bureau did not establish an allowance for uncollectable accounts until after year-end in order to fairly present statements in accordance with GAAP.
- The bureau also did not reconcile its intragovernmental balances with its trading partner agencies other than the Department of Commerce, at least annually, to comply with the provisions of OMB Bulletin 97-01. The bureau experienced difficulties in producing intragovernmental account information and, as a result, reports had to be prepared manually, were incomplete, contained errors, and were submitted late. In addition, the bureau's core financial management system was not designed to identify separately amounts that should be eliminated for intragovernmental purposes in accordance with GAAP.

Accounts Payable and Undelivered Order Weaknesses and Errors.

As part of analysis of bureau budget variances discussed earlier in this report, we focused on the timely and accurate reporting of these two accounts. Controls over unliquidated obligations, which include accounts payable and undelivered orders, are an important part of the structured process needed to reconcile and deobligate funds in a timely manner. The

bureau disclosed in its 1999 and 2000 FMFIA reports that it lacked adequate support for its accounts payable and undelivered orders balances. Further, both the bureau and its auditor have reported significant weaknesses in account reconciliation, as previously discussed, including accounts payable and undelivered orders. For example, we noted that the bureau had not promptly reconciled its subsidiary records with its general ledger control account for undelivered orders as of September 30, 2000. Adjustments for this reconciliation were not recorded until almost 7 months later on April 28, 2001. Further, subsidiary records of accounts payable and undelivered orders by vendor were not included as part of the standard system reports, hampering efforts to appropriately manage these accounts.

Our review and testing of key internal controls for these accounts found conditions to be much worse than reported by the bureau or its auditor. The weaknesses we identified included (1) erroneous information that had not been promptly corrected and (2) ineffective controls to accrue liabilities when goods or services have been delivered but not paid. These weaknesses contributed to additional errors in accounts payable and undelivered order balances as of September 30, 2000. Specifically, the effect of the errors we identified as of September 30, 2000, was a 10-percent overstatement of the audited \$457 million undelivered order balance and a 20-percent understatement of the audited \$134 million accounts payable balance. While these errors were evidence of weak internal controls and were significant to the undelivered orders and accounts payable line items, these errors alone were not material²⁴ to the U.S. Census Bureau's \$1.2 billion fiscal year 2000 balance sheet and other financial statements.

The primary cause of these problems was erroneous information in subsidiary records for undelivered orders that was not corrected in a timely manner as noted in the following examples.

- Year-end adjustments of \$65 million had to be manually posted, which did not occur until 7 months later on April 28, 2001.
- Undelivered orders subsidiary records as of September 30, 2000, contained \$46 million for a contract that had been liquidated in February 1999. This

²⁴Materiality is a measurement of the magnitude of an omission or misstatement of an item in a financial report over which a change would be made.

error was finally corrected as part of the above \$65 million of year-end adjustments to reconcile a subsidiary report to the general ledger.

- Subsidiary records for three undelivered orders balances totaling \$5 million were duplicated. This duplication occurred because the bureau changed the document type code of these undelivered orders but did not remove the old document type code from the subsidiary records.
- Undelivered orders for services for three contracts totaling \$20 million (previously discussed as part of our \$55 million of proposed deobligations) had been completed as of September 30, 2000, and could have been deobligated.
- Undelivered orders also included \$27 million of goods and services that had been delivered prior to September 30, 2000. The effect of these deliveries is a decrease in undelivered order balances and a corresponding increase in accounts payable balances as of September 30, 2000. We identified about \$26 million by reviewing 95 subsequent disbursements over \$500,000 from October 1, 2000, through January 31, 2001. The remaining \$1 million was identified from a further examination of contracts, interagency agreements, purchase orders, invoices, and payments for account balances over \$1 million through June 4, 2001.

Financial Management Systems Weaknesses

The U.S. Census Bureau's financial management systems encompass the software, hardware, personnel, manual and automated processes, procedures, internal controls, and data necessary to carry out financial management functions, manage financial operations, and report financial status. Weaknesses in the bureau's financial management systems affect the completeness, accuracy, and timeliness of data needed for oversight and informed management decisions. The bureau has experienced persistent financial management systems problems for many years and has candidly acknowledged the material nonconformance of its financial systems in annual FMFIA reports. The bureau's fiscal years 1999 and 2000 FMFIA reports stated that further work was required to improve routine bureau reporting and systems controls.

Extensive systems weaknesses and errors were found by the bureau and its auditors, and by us during our work on certain fiscal year 2000 bureau account balances. In addition, Commerce officials acknowledged significant fiscal year 2001 efforts to correct existing weaknesses in the bureau's core financial management system. We do not agree with the bureau's assertion in its annual financial report for fiscal year 2000 that its financial management systems substantially comply with FFMIA requirements. FFMIA was intended to advance federal financial management by ensuring that federal financial management systems can

and do routinely provide reliable, timely, and consistent disclosure of financial data. FFMIA requires that agencies implement and maintain systems that substantially comply with

- federal financial management systems requirements, as contained in OMB Circular A-127, *Financial Management Systems*, the Joint Federal Management Improvement Program's (JFMIP) *Framework for Federal Financial Management Systems*, and JFMIP's *Core Financial System Requirements*;
- applicable federal accounting standards; and
- the *U.S. Standard General Ledger* (SGL) at the transaction level.

In its fiscal year 1999 and 2000 reports of compliance with laws and regulations, the bureau's auditing firm stated that the results of its tests disclosed no instances in which the bureau's financial management systems did not substantially comply with FFMIA. However, in its fiscal year 1998 report on compliance with laws and regulations, the bureau's previous auditing firm stated that the bureau did not substantially comply with FFMIA, and many of the same weaknesses this firm reported have continued. In our view, the bureau's financial management systems did not substantially comply with the three requirements of FFMIA as of September 30, 2000, as discussed below.

First, we believe that the bureau's systems did not substantially comply with the federal financial management systems requirements. This is because the systems could not provide reliable and timely financial information to manage current government operations and prepare financial reports.²⁵ The systems weaknesses were the result of a number of factors, including data quality and systems design issues. For example, the bureau's auditors reported the following weaknesses in the bureau's core

²⁵OMB Circular A-127 states "The agency financial management system shall be able to provide financial information in a timely and useful fashion to (1) support management's fiduciary role; (2) support the legal, regulatory and other special management requirements of the agency; (3) support budget formulation and execution functions; (4) support fiscal management of program delivery and program decision making; (5) comply with internal and external reporting requirements, including, as necessary, the requirements for financial statements prepared in accordance with the form and content prescribed by OMB and reporting requirements prescribed by Treasury; and (6) monitor the financial management system to ensure the integrity of financial data."

financial management system, the Commerce Administrative Management System (CAMS).²⁶

- For fiscal year 1999, the auditors reported a material weakness in the ability of CAMS to produce necessary reports routinely and on time to meet internal and audit requirements. For example, CAMS was unable to prepare usable undelivered order and accounts payable subsidiary reports. In addition, the auditors reported a material weakness in certain information system controls, including the lack of a security plan for CAMS and needed improvements in the operating system that supported CAMS.
- For fiscal year 2000, the auditors determined that the bureau had made some systems improvements in CAMS and concluded that the reporting and controls were a reportable condition rather than a material internal control weakness. For example, the auditors reported in fiscal year 2000 that CAMS could not distinguish adjustments that occur between preliminary and final balances. In addition, reports required by Treasury, such as the SF-224, *Statement of Transactions*, and the SF-133, *Report on Budget Execution and Budgetary Resources*, were not supported by CAMS and had to be manually prepared. Further, the auditors continued to have concerns about weaknesses in bureau security planning, management, and access controls. A penetration test conducted by the auditors indicated that bureau systems and data were vulnerable to unauthorized access, although no actual instances of unauthorized access were detected. GAO's *Standards for Internal Controls in the Federal Government* highlight the need for adequate control over automated information systems to ensure protection from inappropriate access and unauthorized use by hackers and other trespassers or inappropriate use by agency personnel.

We concurred with these auditor reports and, in conducting our test work of accounts payable and undelivered orders, identified several other serious systems deficiencies as follows.

- For fiscal year 2000, CAMS could not produce subsidiary records of accounts payable and undelivered orders by vendor to support its general

²⁶CAMS is a financial management system currently being implemented throughout the Department of Commerce. It consists of three categories of systems: the core financial system, department functional systems, and bureau-specific feeder systems. The U.S. Census Bureau was the pilot agency for CAMS, which has been the bureau's accounting system of record starting in fiscal year 1998.

ledger balances. Bureau officials stated that CAMS is a transaction-based system that has accumulated about 18 million records since it was initially installed on October 1, 1997. These records represent transactions for invoices, payments, and adjustments that would have to be sorted by vendor codes in order to obtain detail balances by vendor. Even if this were done, bureau officials expect their efforts to be hampered by thousands of balances of less than \$1 because of small differences created by estimating and rounding of invoices and payments.

- CAMS had no archive capability to store millions of completed transactions to reduce volume and processing time and highlight errors, duplicates, and larger balances. According to Commerce officials responsible for CAMS, the archiving capability has not been a priority since new and faster computer hardware in fiscal year 2001 has reduced processing time for accounts payable and undelivered order subsidiary transaction reports from 22 hours to 2 hours. However, these subsidiary reports still remain unusable as a day-to-day reporting and control tool because they continue to include a large volume of completed transactions and are not sorted by vendor.
- Because CAMS subsidiary records for payables, receivables, property, and undelivered orders were not integrated with the general ledger, extensive manual reconciliation and workarounds were required, which are time-consuming and error prone. As a result of these deficiencies, the bureau took 3 months to provide us with an electronic file of undelivered order transactions that reconciled to the CAMS general ledger before intra-agency elimination entries. Even after this lengthy delay in obtaining the file, we still had to sort the transactions by vendor to obtain the September 30, 2000, undelivered order balance by vendor in order to conduct our testing. Further, the bureau was unable to provide a usable accounts payable listing by vendor as of September 30, 2000.

Second, we believe that the bureau's financial management systems for fiscal year 2000 did not produce information that substantially complied with applicable federal accounting standards. This occurred because systems weaknesses affected the ability of the bureau to prepare its fiscal year 2000 financial statements and reports in accordance with GAAP. According to the January 4, 2001, OMB guidance for determining compliance with FFMIA, indicators of noncompliance with accounting standards would include the material weakness reported by the auditors on the bureau's difficulties and delays in producing complete and accurate financial statements and related disclosures. The material adjustments necessary to fairly present statements at year-end and the significant errors we found in accounts payable and undelivered order balances are evidence of serious weaknesses that impede compliance with GAAP.

Finally, we believe that the bureau's financial management systems did not substantially comply with the last requirement of FFMIA regarding the SGL at the transaction level. This is because the bureau's subsidiary feeder systems do not interface with the CAMS core financial system general ledger for timely posting to the SGL at the transaction level. We noted that for fiscal year 2000, CAMS did not support reconciliation of SGL control accounts to their respective subsidiary records, such as the Undelivered Orders Report (FM 109) to the CAMS control accounts. Further, CAMS could not provide a usable accounts payable listing by vendor as of September 30, 2000, that would indicate the SGL accounts at the transaction level.

According to Commerce officials, a number of improvements to the CAMS core financial system were made during fiscal year 2001, including

- improved capability to routinely generate usable detail subsidiary reports for advances, accounts receivable, accounts payable, undelivered orders, and unfilled customer orders;
- a new process to test closing entries and run trial balances, enter audit adjustments, and generate postclosing balances;
- certification tests of software that examined 176 functional areas and identified 9 exceptions for a compliance rate of 95 percent; and
- cleanup of large volumes of unmatched transactions due to missing or erroneous vendor, customer, or document numbers from faulty feeder systems to improve reports needed for the annual audit process.

We did not assess these reported improvements. The fiscal year 2001 financial closing and independent audit of the bureau will help determine the effectiveness of these actions. Further, Commerce officials stated that standard interfaces for accounts receivable and payable, which will allow source feeder system data to be posted at the transaction level to the CAMS general ledger more timely and accurately, are being built and are expected to be available by July 2002.

Review of Other Selected Areas

As agreed, we also obtained financial system information and reviewed financial policies on other selected financial areas at the U.S. Census Bureau. These areas, presented in appendix III, were personnel and benefit expenditures, fund balance with Treasury, property and equipment, and government credit cards. The following are two areas of concern.

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- For personnel expenditures, some salary amounts were charged to the wrong projects due to errors in time charge coding. This distorted variances when compared to planned amounts and created inaccurate measures of performance for selected projects. Projects affected were remote Alaska enumeration and advance visits for service-based enumeration. These errors occurred because bureau supervisors and timekeepers did not closely review project codes used by employees on timesheets.
 - For property and equipment, over \$158 million, about 57 percent, of total undepreciated accountable property in the bureau's records was not reported on the bureau's balance sheet as of September 30, 2000. Federal accounting standards state that property with a useful life of 2 years or more be capitalized but allow each agency to establish its own dollar threshold for capitalization.²⁷ Any amounts under that limit would be expensed. However, a limit that is too high understates the reported amount of property and equipment possessed by the bureau. For fiscal years 1996 and prior, the bureau capitalized property and equipment with an acquisition cost of \$5,000 or more; it changed to a \$25,000 limit for new property acquired in fiscal year 1997 and subsequent years.

Recommendations for Executive Action

We recommend that the Secretary of Commerce ensure that the U.S. Census Bureau take the following actions:

- deobligate at least \$55 million for contracts we identified for which work has been completed and amounts are not needed to close out contracts;
- review the remaining \$90 million of undelivered order balances as of September 30, 2000, to identify and deobligate amounts not needed for those orders;
- instruct accounting personnel to follow the written policy for establishing accruals and proper cutoff for goods and services received at year-end;
- post accounting adjustments to subsidiary records in a timely manner;
- complete efforts to modify the bureau's financial systems to produce usable accounts payable and undelivered order subsidiary reports by vendor, close out thousands of completed transactions with small balances, and archive all completed transactions;

²⁷Statement of Federal Financial Accounting Standard (SFFAS) No. 6, *Accounting for Property, Plant, and Equipment*.

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- amend policies and procedures to require supervisors to closely review employee time charges and project codes to more accurately reflect project costs for salaries and benefits; and
 - reconsider the bureau's property and equipment capitalization threshold, as the current policy did not recognize about 57 percent of the bureau's total gross accountable property and equipment as of September 30, 2000.

Agency Comments and Our Evaluation

In commenting on a draft of this report, the Department of Commerce, U.S. Census Bureau, agreed with five of our seven recommendations and made a number of comments on our specific findings. The most significant of the bureau's specific comments relates to our finding that the bureau did not comply with FFMIA requirements for the year ended September 30, 2000. This section of the report addresses the bureau's disagreement with the two recommendations and our conclusion regarding compliance with FFMIA. The bureau's remaining specific comments are addressed in appendix IV.

In general, the bureau stated that it is important to underscore its overarching success in managing the \$4.5 billion budget appropriated for the 2000 census and that any analysis of the bureau's financial management system should acknowledge this significant achievement. However, the objectives of our budget review did not include assessing the efficiency of expenditures and obligations against planned budget appropriations. Rather, the objective of our review was to analyze budget variances reported by the U.S. Census Bureau and to identify other potential variances for the 2000 decennial census, including the reasons for these variances. Further, the bureau is still assessing the efficiency of the 2000 census in its postenumeration review, which will not be completed until fiscal year 2003. As stated in the introduction to this report, this product is one of several we will be issuing in the coming months on lessons learned from the 2000 census. As was done after the 1990 census, we are currently reviewing key operations of the 2000 census.

With regard to the two recommendations with which the bureau did not agree, the first related to our call for the bureau to deobligate at least \$55 million for contracts for which the work had been completed and no further amounts were needed. The bureau stated that the \$55 million should not have been deobligated as of September 30, 2000, because final closeout, which may include late cost determinations, often occurs well after the period of performance has expired. However, the bureau indicated its agreement with the estimated amounts to be deobligated, stating that it had included an estimated \$28 million in its fiscal year 2001

budget for prior-year recoveries and that the remaining \$27 million would be used to partially offset its fiscal year 2002 appropriation. The bureau's primary concern was the timing of when these funds would be available.

As indicated in the body of this report, three contracts had amounts totaling \$20 million that should have been deobligated as of September 30, 2000, while three other contracts were completed and had amounts totaling \$35 million that were available for potential deobligation by the time we completed our review in June 2001. As stated in our report, we recognize that an agency should identify and deobligate funds no longer needed after the agency is certain no related costs remain to be paid. Thus, the report takes into account the bureau's point that contract closeout may take some time beyond the end of the fiscal year.

The second recommendation with which the bureau disagreed related to the bureau's property and equipment capitalization threshold. The bureau stated that the Department of Commerce had issued a capitalization threshold of \$25,000 for individual purchases, which Census then adopted. We did not evaluate the appropriateness of the \$25,000 threshold for the Department of Commerce as a whole and agree that the amount of the bureau's net property and equipment appears to be insignificant at that level. However, we continue to recommend that the threshold be considered and evaluated separately for the U.S. Census Bureau in light of the fact that the higher threshold resulted in eliminating 57 percent of the bureau's accountable property and equipment from its balance sheet—which is significant to the bureau.

Finally, the primary finding with which the bureau disagreed in its specific comments was our assessment that the bureau's financial management systems did not substantially comply with the requirements of FFMIA as of September 30, 2000. The bureau stated that its financial management system complied with all FFMIA requirements and identified three issues as key support for its position. We disagree with each of these points and continue to believe that the bureau's financial management systems were not FFMIA compliant.

First, the bureau indicated that its financial systems were able to support a \$4.5 billion budget, and bureau managers used financial management reports to meet all statutory deadlines and complete the 2000 operations on time and under budget. As stated previously, the objectives of this report did not include a qualitative analysis of the bureau's performance in conducting the 2000 census. However, our report does describe several instances of noncompliance with FFMIA requirements. For example, as

stated in the body of this report, the bureau's auditors reported as a material internal control weakness that reports required by Treasury such as the SF-224, *Statement of Transactions*, and the SF-133, *Report on Budget Execution and Budgetary Resources*, were not supported by the bureau's financial management systems and had to be manually prepared. While the bureau's response cited OMB's January 4, 2001, guidance on FFMIA implementation in support of its position, the bureau did not include a key sentence from the guidance, which states, "Auditors then need to use judgement in assessing whether the adverse impacts caused by identified deficiencies are instances of substantial noncompliance with FFMIA." In our view, the above material weakness was clearly evidence of substantial noncompliance as of September 30, 2000.

Second, the bureau stated that CAMS met 95 percent of JFMIP core requirements and used standard general ledger accounts as required. Also, although the bureau agreed that manual processes are required, it cited OMB guidance that states systems need not be entirely automated to be FFMIA compliant. Our report acknowledges that, according to bureau officials, a number of improvements were made to the CAMS core financial system subsequent to September 30, 2000. Although we did not assess these reported subsequent improvements, their description, number, and significance supports our belief that CAMS did not comply with FFMIA as of September 30, 2000. Further, Commerce officials cited additional work to be done such as building standard interfaces for accounts receivable and payable, which are not expected to be available until July 2002. In addition, we agree that the use of manual processes does not necessarily indicate FFMIA noncompliance. However, the deficiency we pointed out was the CAMS lack of integrated subsidiary records with the general ledger, requiring extensive manual reconciliation and workarounds, which are time consuming and error prone. At the transaction level, we reported problems with timely posting to the SGL and the reconciliation of SGL control accounts to their respective subsidiary records, as well as the inability to provide a usable accounts payable listing by vendor.

Third, according to the bureau, its financial management systems substantially comply with federal accounting standards because the errors and year-end adjustments we identified in accounts payable and undelivered orders were not "material enough" to warrant a finding of noncompliance. Our report contains several indicators of noncompliance with accounting standards, which are consistent with OMB guidance on this issue. Specifically, evidence of serious weaknesses that impede compliance with accounting standards includes (1) the material weakness

reported by its auditor on the bureau's difficulties and delays in producing complete and accurate financial statements and related disclosures, (2) the material adjustments necessary to fairly present statements at year-end, and (3) the significant errors we found in accounts payable and undelivered order balances.

We are sending copies of this report to the Chairman and Ranking Minority Member, Senate Committee on Governmental Affairs, and the Chairman and Ranking Minority Member, Committee on Government Reform. We are also sending copies to the Acting Director, U.S. Census Bureau; the Secretary and Inspector General of the Department of Commerce; the Director of the Office of Management and Budget; and the Secretary of the Department of the Treasury, and other interested parties. This report will also be available on GAO's home page at <http://www.gao.gov>.

If you or your staffs have any questions on this report, please contact me at (202) 512-9095 or by e-mail at kutzg@gao.gov or Roger R. Stoltz, Assistant Director, at (202) 512-9408 or by e-mail at stoltzr@gao.gov. Key contributors to this report are listed in appendix V.

A handwritten signature in black ink that reads "Gregory D. Kutz". The signature is fluid and cursive, with the first name "Gregory" being the most prominent part.

Gregory D. Kutz
Director
Financial Management and Assurance

Appendix I: Objectives, Scope, and Methodology

The objectives of our work were to (1) analyze budget variances reported by the U.S. Census Bureau and to identify other potential variances for the 2000 decennial census, including the reasons for these variances, and (2) review key financial internal controls of the bureau and report on any weaknesses noted in selected financial areas. We did not assess the efficiency of expenditures and obligations against planned budget appropriations.

To fulfill the objective on budget variances, we obtained and reviewed bureau documents to support the reported savings, analyzed financial variances, and interviewed bureau personnel for explanations on variances down to the project level. We reconciled supporting balances of undelivered orders by vendor subsidiary accounts to the general ledger balance and examined supporting contracts, interagency agreements, purchase orders, invoices, and subsequent payments on all vendor balances of \$1 million or more as of September 30, 2000, through June 4, 2001.

To determine the validity of undelivered orders we examined supporting documentation and discussed their status with bureau officials. The 70 vendor balances of \$1 million or more that we tested constituted about 73 percent of the total bureau undelivered orders of \$504 million as of September 30, 2000. Interagency adjustments for the bureau's working capital fund of \$33 million and year-end closing adjustments of \$14 million reduced undelivered orders to \$457 million in the bureau's financial statements as of September 30, 2000. We did not test about \$90 million representing over 7,300 balances summarized by vendor and over 43,000 individual transactions under \$1 million of undelivered orders as of September 30, 2000. Additionally, the scope of our work did not include determining whether the use of contractors was appropriate for the involved activities.

We also tested for unrecorded liabilities as of September 30, 2000, by examining bureau disbursements over \$500,000 from October 1, 2000, through January 31, 2001, to determine when goods or services had been received and to identify potential unrecorded liabilities for the 2000 decennial census.

We did not audit the bureau's fiscal year 2000 financial statements and therefore we do not express an opinion on them. We also obtained but did

not audit preliminary enumerator productivity data provided by the bureau. Productivity issues were recently addressed in a separate GAO report.¹

To fulfill the objective on key financial internal controls, we read bureau reports, performed undelivered order balance and unrecorded liability tests discussed above, and interviewed bureau officials. For selected financial areas, we also obtained bureau system information and read policies and procedures. For fiscal year 1999 and 2000, we reviewed FMFIA weaknesses reported by the bureau to the Department of Commerce for inclusion in the Department's annual accountability reports. We also reviewed the bureau's fiscal year 1998, 1999, and 2000 audited financial statement reports, and two fiscal year 2000 management letters and noted internal control weaknesses reported by the bureau's independent auditors. We also identified internal control weaknesses as a result of our testing and observations at the bureau. In addition, we reviewed financial system information and financial policies and interviewed bureau officials on fund balance with Treasury, property and equipment, salaries and benefits, and government small purchase and travel credit cards, but did not audit this information.

We also met with Commerce IG officials and representatives of the independent auditing firm to discuss the fiscal year 2000 audit of the bureau's financial statements. We reviewed the auditing firm's working papers in selected areas of accounts payable, other liabilities, undelivered orders, fund balance with Treasury, and property and equipment as of September 30, 2000, and personnel salaries and benefits for fiscal year 2000. We also reviewed the auditor's audit approach, interim work, and compliance work on FFMIA.

We performed our work at bureau headquarters in Suitland, Maryland, and in the office of the bureau's fiscal year 2000 auditing firm in Washington, D.C. Our work was performed from December 2000 to June 2001 in accordance with U.S. generally accepted government auditing standards.

¹2000 Census: Better Productivity Data Needed for Future Planning and Budgeting (GAO-02-4, Oct. 4, 2001).

On December 7, 2001, we received comments on a draft of this report from the Department of Commerce, U.S. Census Bureau. These comments are presented in the “Agency Comments and Our Evaluation” section of this report and are reprinted in appendix IV.

Appendix II: Explanations for Fiscal Year 2000 Project Variances of \$5 Million or More

Table 4: Fiscal Year 2000 Project Variances of \$5 Million or More

Dollars in millions

Reference number	Framework and project number	Project title	Appropriation ^a	Obligated	Positive (negative) variance
1	3-6301	Definition of Geographic Area	\$14	\$8	\$6
2	3-6331	Assignment Control—Nonresponse Follow-up	2	22	(20)
3	3-6333	Assignment Preparation—Nonresponse Follow-up	2	28	(26)
4	3-6335	Be Counted	25	17	8
5	3-6336	Coverage Improvement Follow-up	150	203	(53)
6	3-6337	Group Quarters Enumeration	74	43	31
7	3-6338	List Enumeration	28	20	8
8	3-6339	Enumerate-Nonresponse Follow-up	1,092	1,179	(87)
9	3-6341	Remote Alaska	7	-	7
10	3-6342	Service Based Enumeration	41	9	32
11	3-6447	Data Collection A	217	122	95
12	3-6448	Data Collection B	109	54	55
13	3-6449	Data Collection C	425	291	134
14	3-6450	Data Collection D	59	45	14
15	3-6455	Kit Preparation	22	29	(7)
16	3-6470	Regional Direction and Control	80	69	11
17	3-6480	ACE Collection Activity	132	93	39
18	3-6510	Regional and Local Census Office Support	276	240	36
19	3-6516	Enumerating Special Populations	2	20	(18)
20	3-6540	Telecommunications	54	23	31
21	3-6910	Automated Acquisitions	38	32	6
22	3-6912	Telephone Questionnaire Assistance	102	88	14
23	4-6406	Address List Capture	7	12	(5)
24	4-6408	Non-ID Processing	10	3	7
25	5-6918	DCS 2000 Contract	94	103	(9)
26	5-6922	NPC Data Capture Operations	43	21	22
		Total for 26 projects with variances of \$5 million or more	3,105	2,774	331
		Total projects with variances less than \$5 million	1,371	1,342	29
		Subtotal	4,476	4,116	360
27		Undelivered order deobligations	-	(55)	55
		Total	\$4,476	\$4,061	\$415

^aThese amounts are after transfers between earmarked funds described in footnote 9.

Source: GAO analysis of U.S. Census Bureau financial management reports.

Based on analysis and interviews with U.S. Census Bureau officials, the following are bureau explanations for fiscal year 2000 project variances over \$5 million (by reference number noted in table 4).

1. According to the bureau, half of the positive variance of \$6 million for project 6301 for definition of geographic area was caused by overestimating the number of geographic staff required to carry out the participant statistical area program. The remaining half of the positive variance is attributed by the bureau to fewer geographic clerks in the National Processing Center (NPC) for the Boundary and Annexation Survey mailing and response processing. This resulted in lower salary and benefit costs for about 224 FTEs.
2. The negative variance of \$20 million for project 6331 for nonresponse follow-up assignment control was caused by an underestimate of funds for salary, travel, and other costs. According to the bureau, the underestimate was caused by an unanticipated activity of rescheduling and assigning enumerators to recount about 122,000 questionnaires that were lost between the local census offices and the data capture centers.
3. The negative variance of \$26 million for project 6333 for nonresponse follow-up assignment preparation was because of an underestimate of funds for salary, travel, and other costs. According to the bureau, this underestimate was caused by unplanned activity of preparing information packages for enumerator to recount over 600,000 cases in which questionnaires did not indicate the number of persons living in the household.
4. The positive variance of \$8 million for project 6335 for the Be Counted and Questionnaire Assistance Center programs was caused by the lower workload that resulted in salary, travel, and other cost savings. According to the bureau, the 886,000 actual addresses processed were 10 percent less than the 980,000 addresses planned for the program. The bureau believed this occurred because it had a better address list than originally anticipated so people did not need to rely on the Be Counted forms available at walk-in centers, such as community centers, churches, libraries, post offices, and other public facilities. Also, many of the Be Counted forms received were not used as

households were already counted as a part of the regular mail out and mail back process.¹

5. A negative variance of \$53 million occurred for project 6336 for coverage improvement follow-up that resulted in higher salary, travel, and other costs. According to the bureau, the variance was because of the unanticipated need to verify 1.5 million new addresses as vacant and to identify about 68,000 households to be recounted by enumerators for one area because the accuracy of the enumeration was in question.
6. A positive variance of \$31 million occurred for project 6337 for group quarters enumeration in places like prisons, nursing homes, and school dormitories. According to the bureau, the variance was because of a two-thirds lower workload of 172,000 actual units rather than the 519,000 units planned, which resulted in salary, travel, and other cost savings. The bureau believes this occurred because some of the addresses it planned for group quarters enumeration were actually businesses, commercial establishments, duplicates, or nonexistent.
7. A positive variance of \$8 million occurred for project 6338 for list enumeration in areas where residences do not receive mail delivery, such as rural areas where mail is sent to post office boxes. According to the bureau, the variance occurred because of a 25-percent lower workload of 372,000 actual units rather than the 500,000 units planned, which resulted in salary, travel, and other cost savings. The bureau believes this occurred because of inaccurate address lists that determined planned amounts.
8. The negative variance of \$87 million for project 6339 for nonresponse follow-up enumeration was caused by higher costs than planned for enumerator salary and benefit costs and a higher workload for unanticipated recounts. According to bureau data, enumerators were paid almost \$1 an hour more than the average \$11.77 an hour planned in order to recruit a sufficient number of quality temporary workers in a tight labor market. In addition, almost 3,300 more FTE enumerators were hired than planned. This occurred because of the bureau's front-loaded staffing strategy that anticipated a 150-percent turnover of

¹For further information, see *2000 CENSUS: Actions Taken to Improve the Be Counted and Questionnaire Assistance Center Programs* (GAO/GGD-00-47, February 25, 2000).

enumerators coupled with a higher workload for unexpected household visits to recount almost 800,000 incomplete, lost, or inaccurate questionnaires for

- over 600,000 cases in which returned questionnaires did not indicate the number of persons living in the household (preparation costs are item #3),
 - 122,000 questionnaires that were lost between completion by local census offices and processing by the data capture centers (assignment costs are item #2), and
 - 68,000 questionnaires that were recounted because the accuracy of the enumeration was in question. (Identification costs are item #5.)
9. The positive variance of \$7 million for project 6341 for remote Alaska enumeration was because, according to the bureau, salary and other costs were erroneously charged to project 6516 for enumerating special populations. (See #19.)
10. A positive variance of \$32 million occurred in project 6342 for service based enumeration in places like soup kitchens, homeless shelters, and areas frequented by persons with no fixed addresses. According to the bureau, the variance was caused by an 80-percent lower workload of 14,000 actual sites verses the 69,000 sites planned, which resulted in salary, travel, and other cost savings. The bureau believes that the majority of the planned sites did not exist and were added to address lists because of inaccurate national and local data. Also, bureau officials stated that some costs of advance visits were erroneously charged to project 6516 for enumerating special populations. (See #19.)
11. The positive variance of \$95 million for project 6447 for data collection A (intercity support staff in 102 local census offices) was caused by lower support workloads than planned, and the higher than expected mail response rate was a contributing factor. According to the bureau, this resulted in cost efficiencies in logistical support salaries of 3,578 FTEs compared to the 6,416 FTEs planned, for savings of 44 percent.
12. The positive variance of \$55 million for project 6448 for data collection B (suburb support staff in 51 local census offices) was caused by lower support workloads than planned, and the higher than expected mail response rate was a contributing factor. According to the bureau, this resulted in cost efficiencies in logistical support salaries of 1,692 FTEs compared to the 3,221 FTEs planned, for savings of 47 percent.

13. The positive variance of \$134 million for project 6449 for data collection C (small town support staff in 316 local census offices) was caused by lower support workloads than planned, and the higher than expected mail response rate was a contributing factor. According to the bureau, this resulted in cost efficiencies in logistical support salaries of 10,723 FTEs compared to 16,480 FTEs planned, for savings of 35 percent.
14. The positive variance of \$14 million for project 6450 for data collection D (rural support staff in 42 local census offices) was caused by lower support workloads than planned, and the higher than expected mail response rate was a contributing factor. According to the bureau, this resulted in cost efficiencies in logistical support salaries of 1,633 FTEs compared to the 2,532 FTEs planned for savings of 35 percent.
15. According to the bureau, the negative variance of \$7 million for project 6455 for kit preparation was caused by higher than planned staff overtime and priority shipping costs to ensure delivery of materials and supplies to the 520 temporary local census offices to begin enumeration.
16. The positive variance of \$11 million for project 6470 for regional direction and control was caused by lower support staff workloads than planned in 12 regional census offices, and the higher than expected mail response rate was a contributing factor. According to the bureau, this resulted in cost efficiencies in logistical support salaries of 1,161 FTEs compared to the 1,518 FTEs planned, for savings of 24 percent.
17. The positive variance of \$39 million for project 6480 for ACE collection activity was caused by a lower than planned workload of cases requiring personal visits. According to the bureau, this resulted in lower data collection costs for staff salaries and benefits of \$33 million, lower equipment costs of \$4 million, and lower office rental costs of \$2 million. The purpose of ACE was to estimate the population for purposes such as redistricting by sampling households from an address list developed independently of the address list used to enumerate the census. The results of ACE (formerly Integrated Coverage Management) were to have been statistically combined with the results of enumeration to form a single, integrated set of population counts.

18. According to the bureau, the positive variance of \$36 million for project 6510 for regional and local census office support was caused by lower support workloads, which resulted in lower office space and equipment costs than planned. The mail response rate was a contributing factor to the lower support workloads.
19. According to the bureau, the negative variance of \$18 million for project 6516 for enumerating special populations was caused by charging salary and other costs erroneously charged from Remote Alaska (see #9) and some costs of advance visits for service-based enumeration (see #10).
20. According to the bureau, the positive variance of \$31 million for project 6540 for telecommunications was the result of renegotiating a 90-percent reduction in FTS 2000 long distance phone costs from a planned 10 cents a minute to an actual 1 cent a minute.
21. According to the bureau, the positive variance of \$6 million for project 6910 for automated acquisitions was primarily the result of lower computer equipment costs and lower headquarters telephone support costs than planned.
22. According to the bureau, the positive variance of \$14 million for project 6912 for telephone questionnaire assistance was caused by lower contractor costs in running the program since the number of inbound calls of 6 million was 45 percent lower than the 11 million calls planned.
23. The negative variance of \$5 million for project 6406 for address list capture was caused by the higher than planned workload for support staff updating enumerator maps and the address database. According to the bureau, planned workload was 2.4 million map sheets while the actual workload was over 150 percent higher at 6.1 million map sheets because the number of new and corrected locations was higher than anticipated.
24. The positive variance of \$7 million for project 6408 non-ID processing was caused by the lower than planned workload for support staff to match and code questionnaires for the Be Counted and Telephone Assistance programs. According to the bureau, planned workload was 2.5 million addresses and actual workload was 52 percent lower at 1.2 million addresses because more information was already contained in mailed questionnaires than anticipated.

25. According to the bureau, the negative variance of \$9 million for project 6918 for the DCS 2000 contract was caused by higher contractor costs than planned to scan census questionnaires in two passes. The first pass scanned six basic questions on both the short and long forms, and the second scanned the balance of long form responses. The bureau refers to this as the two-pass approach to data capture.
26. The positive variance of \$22 million for project 6922 for NPC data capture operations was caused by a lower workload than planned for forms to process and higher productivity for data entry. According to the bureau, 5 million fewer mail back, enumerator, and group quarters forms were processed, and data entry productivity of 6,500 keystrokes per hour was higher than the 5,200 keystrokes per hour planned.
27. The positive variance of \$55 million for undelivered order deobligation is discussed in the body of this report. The six contracts concerned can be identified by framework but could not be identified to the project level as contracts may involve multiple projects.

Appendix III: Review of Other Selected Areas

As agreed with our requesters, we also reviewed financial system information and financial policies and interviewed officials on other selected financial areas at the U.S. Census Bureau, but did not audit this information. These selected areas were bureau personnel and benefits expenditures, fund balance with Treasury, property and equipment, and government small purchase and travel credit cards. No significant weaknesses or areas for improvement were noted during our work in these areas, except for the two areas noted in the body of this report related to personnel expenditures and property and equipment capitalization thresholds.

Review of Personnel and Benefits Expenditures

For the bureau's personnel and benefit expenditures, we noted the following.

- This area was the largest fiscal year 2000 expenditure consisting of \$2,475 million, or 58 percent, of total expenditures of \$4,259 million for periodic census and programs, including decennial census.
- Policies and procedures existed to provide guidance and internal controls.
- A contractor tested the Pre-Appointment Management System (PAMS) and Automated Decennial Administrative Management System (ADAMS) temporary employee payroll system with no material exceptions noted.
- In March 2000, the Commerce IG conducted an evaluation of PAMS/ADAMS and found areas where software practices needed improvement but concluded that the systems should provide adequate support for the 2000 decennial census.¹
- As discussed in appendix II, coding errors caused some salary amounts to be erroneously charged to other projects.
- The bureau's independent auditor review of internal controls and substantive tests noted no significant issues with personnel and benefits for fiscal year 2000.

Review of Fund Balance With Treasury

For the bureau's fund balance with Treasury, we noted the following.

- The bureau's balance sheet showed \$1.1 billion as of September 30, 2000.
- Policies and procedures existed to provide guidance and internal controls.
- One central disbursing function at the bureau's headquarters in Suitland, Maryland controls payments to vendors and employees.

¹Final Inspection Report OSE-11684, March 2000.

-
- A contractor performs monthly reconciliation of fund balances, and differences are investigated promptly by bureau financial accounting staff.
 - The bureau's independent auditor review of internal controls and substantive tests noted no significant issues with fund balance with Treasury for fiscal year 2000.

Review of Property and Equipment

For the bureau's property and equipment, we noted the following.

- The bureau's balance sheet showed \$121 million at an acquisition cost of \$25,000 and over as of September 30, 2000. As discussed in the body of this report, this amount represented only 43 percent of total bureau gross accountable property. After accumulated depreciation, net property and equipment was valued at \$47 million.
- Policies and procedures existed to provide guidance and internal controls.
- The bureau can provide detailed lists of its accountable property, including capitalized, noncapitalized, and sensitive property.
- The bureau conducted physical wall-to-wall inventories of all its accountable property during fiscal year 2000 that were observed by the independent auditors and the Commerce IG's staff.
- A contractor performs a monthly reconciliation of the equipment included in the subsidiary property record system, the Accountable Property Management System (APMS), to the bureau's general ledger function contained in CAMS.
- In March 2000, the Commerce IG conducted a review of accountable property at the 12 regional data census centers and found areas where internal controls could be improved in the recording of property in APMS, the observation of annual physical inventories, and the documentation of transfers of property.²
- The bureau's independent auditor review of internal controls and substantive tests noted no significant issues with property and equipment for fiscal year 2000.

Review of Government Credit Cards

For the bureau's government credit card program for small purchase cards and employee travel cards, we noted the following.

- The bureau uses Citibank Visa credit cards for expenses for official government travel and for small purchases, such as supplies and services.

²Final Audit Report ESD-11781-0-0001, March 2000.

As of June 12, 2001, the bureau had 3,950 travel credit cards outstanding. As of June 22, 2001, the bureau had 316 purchase cards outstanding.

- The bureau has policies and procedures regarding issuance and use of credit cards to provide guidance and internal controls and appears to be following them.
- Small purchase cards were issued to 79 temporary employees and were subject to the same policies and procedures regarding issuance, use, and separation as for permanent employees.
- The bureau had a policy not to issue government travel cards to temporary employees.
- Small purchase cards have 30-day spending limits ranging from \$5,000 to \$200,000, and travel cards have a \$5,000 credit limit, but increases can be obtained as needed.
- The bureau has a program to monitor credit card use and delinquent payments; however, we did not assess the adequacy of this program.
- The bureau pays all small purchase card bills monthly so there are no delinquent accounts.
- Bureau employees must pay their travel card bills promptly and are reported to the bureau if over 60 days delinquent. As of June 15, 2001, Citibank reported only about \$13,400 in travel card bills over 60 days delinquent, including one account for about \$4,000.
- In March 2000, the Commerce IG conducted a review of small purchase credit cards and concluded that the bankcard program was well managed.³

³Final Audit Report ESD-11781-0-0001, March 2000.

Appendix IV: Comments From the Department of Commerce, U.S. Census Bureau



THE SECRETARY OF COMMERCE
Washington, D.C. 20230

DEC 7 2001

Mr. Gregory D. Kutz, Director
Financial Management and Assurance
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Kutz:

The Department of Commerce appreciates the opportunity to comment on the General Accounting Office draft document entitled *2000 Census: Analysis of Fiscal Year 2000 Budget and Internal Control Weaknesses*. The Department of Commerce's comments on this report are enclosed.

If you wish to discuss this matter in additional detail, please contact Mary Mozingo, Department of Commerce liaison to the General Accounting Office. Ms. Mozingo can be reached at (202) 482-3707.

Warm regards,

A handwritten signature in dark ink, appearing to read "D. Evans", is written over the typed name "Donald L. Evans".

Donald L. Evans

Enclosure

U. S. Department of Commerce
Comments on
General Accounting Office Draft Report, 2000 Census: *Analysis of
Fiscal Year 2000 Budget and Internal Control Weaknesses*

GENERAL COMMENTS

See comment 1.

We have reviewed this report carefully and appreciate this opportunity to respond prior to its publication. Auditors from the General Accounting Office (GAO) discuss areas needing improvement that are addressed below. The U.S. Census Bureau takes very strong exception to several of the auditors' findings. In addition, the Census Bureau is concerned that the findings are being made outside of any operational context. The Census Bureau achieved overarching success in the management of Census 2000, including managing the \$4.5 billion appropriated for FY 2000. The Census Bureau's financial systems provided the necessary information for Census managers to track amounts appropriated, obligated, and expended; to formulate budget savings; to reprogram funds to support critical operations; and to effectively meet all statutory deadlines and complete Census 2000 operations on time and under budget. During this period, the Census Bureau carried out an enormous volume of financial support functions, such as paying thousands of vendors, large and small, all over the country and running a weekly payroll that, at its peak, covered upwards of 500,000 employees.

The GAO has undertaken numerous audits of various aspects of Census 2000 over the past several years. One common theme, with which the Census Bureau strongly agrees, has been that Census 2000 was a high risk undertaking. However, the Census Bureau recognized the risks and took mitigating steps to manage them and achieve success. This strategy also has been true of the financial management area. Indeed, the high risk associated with Census 2000 is one of the driving reasons why the Census Bureau believes it is imperative to start planning for 2010 early in the decade.

The Census Bureau piloted the Commerce Administrative Management System (CAMS) for the Department of Commerce beginning in FY 1998, just two years before the peak of Census 2000 operations. This was done because the Census Bureau's prior, old, outmoded financial system had no chance of allowing the Census Bureau to manage the financial aspects of the census and take the steps necessary to achieve a clean audit opinion. Between FY 1998 and FY 2000, the Census Bureau successfully implemented CAMS, achieved a clean audit opinion, and ran the massive decennial census support activities. The GAO makes no acknowledgment of these major achievements and chooses instead to criticize the Census Bureau for activities such as using contractors, managing large decennial contracts prudently, and using manual procedures (which are slower) when the automated systems did not have sufficient functionality to accomplish everything that the Census Bureau management knew was necessary.

- 2 -

For Census 2000, the Census Bureau operated under 8 frameworks, which were divided into 23 activities. In turn, these activities were further divided into 119 projects. The Census Bureau's financial management reports provided figures for the amounts appropriated, expended, and obligated for each project, as well as budget variances for each project. These reports were supplemented by the Management Information Systems (MIS) developed to provide information that was not available elsewhere – this included the Master Activity Schedule, that tracked critical milestones for detailed census operations, and the Cost and Progress System, that provided data on the specific expenditures for each operation and the extent to which established deadlines were being met. By carefully examining the budget reports, closely adhering to established policies and procedures, and drawing extensively upon the MIS, Census managers were able to effectively meet all statutory deadlines and to complete Census 2000 operations on time and under budget. Any analysis of the Census Bureau's financial management system utilized during Census 2000 should acknowledge this significant achievement.

Budget Variances: Savings vs. Available Balances

The Census Bureau has significant concerns about the GAO's discussion under the heading "Budget Variances were at least \$415 million." In particular, the report does not thoroughly explain the difference between the \$305 million budget savings reported in September 2000 and the figure of \$415 million cited by the GAO. As one of the GAO's objectives is to review the accuracy of reported savings, it is of utmost importance to understand and to clarify the source of this difference.

In September 2000, the Census Bureau identified an **estimated \$305 million in budget savings** to Congress. At that time, these funds already took into account an **estimated \$60 million**, which would be reprogrammed for FY 2001 activities:

- On December 21, 2000, Public Law 106-553 became law making the **\$300 million** available to the Census Bureau by offsetting direct FY 2001 appropriations for Census Bureau programs. Of the \$300 million, \$260 million was applied to Decennial programs, and \$40 million was applied to other periodic programs.
- The **\$60 million** was identified for reprogramming needs and was concurred on by Congress in April 2001. Of this, \$43 million was required for delayed Census 2000 operations, \$13 million represented unforeseen requirements, and \$4 million was required for demographic programs. The delayed Census 2000 operations were essential to complete FY 2000 activities. Funds were earmarked to complete work started in 2000 that could not be completed for various reasons. The unforeseen requirements also utilized funds earmarked for specific operations that were needed in order to complete the Census 2000 activities successfully. This was all included in the reprogramming request formally submitted to Congress and concurred on in mid-April 2001. As the proposal cited, the reprogramming was essential to the successful conclusion of several major Census 2000 activities. Critical activities that were part of our plan were unavoidably delayed into the next fiscal year. In addition, new requirements not covered in the planned FY 2001 operations were a result of information obtained during the conduct of census operations. The reprogrammed funds were for activities such as the provision of maps to accompany redistricting data, completion of major evaluations, completing the census of Puerto Rico, and the orderly shutdown of field operations and facilities.

See comment 2.

- 3 -

See comment 1.

The \$55 million in estimated prior year recoveries was only an estimate at the time of the audit. This amount was not "available" in FY 2000. While some of the activities for which these funds were allocated had been completed (as cited in table 1 of the report), the Census Bureau disagrees with the GAO's contention that obligated balances were not needed to close out the contracts. Until we actually "close out" a contract, we cannot assume that the contract balance can be immediately deobligated. Also, as discussed with the GAO, it should be noted that of the \$55 million estimated for prior year recoveries, the Census Bureau had an estimate in the FY 2001 budget of \$28 million in recoveries. This amount needed to be recovered in order to reach our appropriated budget authority for FY 2001. The remaining \$27 million was used to particularly offset our direct FY 2002 appropriation.

It is also worth mentioning that the amount of the budget variances for the contracts discussed by the GAO constitutes a small portion of the total amount of each contract, which appears below:

Lockheed Martin	\$237,564,461
TRW	\$314,282,740
EDS	\$95,035,462
Young & Rubicam	\$167,000,000
UNISYS	\$42,186,094
GSA	\$213,351,328

In summary, the \$415 million (M) figure described by the GAO can be misleading as described in the report. In fact, the budgeted appropriation, request and allowances are fully supported by the policies and procedures of the budget process. We believe the \$305 million originally reported as savings accurately reflects the Census Bureau's position. The chart below explains the figures discussed above and, thus, the amounts reflected in the report:

See comment 2.

\$300 M	Surplus as reported in September 2000. (By Dec 21, 2001, P.L. 106-553 made these funds available to offset direct FY 2001 appropriations.)
\$ 60 M	Approved by Congress in mid-April 2001, which includes: <ul style="list-style-type: none"> - \$43 M in reprogrammed funds to support delayed operations for critical Census 2000 operations in FY 2001; - \$13 M in unforeseen requirements needed to complete Census 2000 operations in FY 2001; and - \$ 4 M in reprogrammed funds for Demographic Programs.
\$ 55 M	Estimated prior year recoveries at the time of the audit – premature to de-obligate in FY 2000.
\$415 M	GAO identifies "available balances of at least \$415 M" for FY 2001.

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Financial Discrepancies in the Report

We have noted several inaccuracies and/or discrepancies in the presentation of financial findings identified in the report. Specifically, we did not concur with the potential deobligations at September 30, 2000, criticisms related to the use of contract support, and concerns related to the Census Bureau's policies and procedures for accounting for property and equipment.

SPECIFIC COMMENTS

Page 8, Census Appropriation. Reference is made in both the text and in "Footnote 9" to reprogramming provisions contained in Section 605 of the FY 2000 Consolidated Appropriations Act. These terms are correct for all the Census Bureau programs except the decennial census. The notification period for Census 2000 was 3 days, rather than the 15 days called for in Section 605. This is stated in the "Periodic Censuses and Programs" section of House Report 106-479 (the Conference Report) rather than in Section 605.

Page 11, paragraph 3. The GAO notes that it identified potential deobligations totaling \$55 million that represented amounts obligated for contracts under which activity had been completed. The GAO further indicates that the funds potentially could be deobligated and made available for other programs. The GAO also notes on page 13 under the heading "Potential Deobligation of \$55 Million From Undelivered Orders," that it identified potential deobligations of \$55 million and that these potential deobligations were the result of contracts where activity had been completed and obligated balances were not needed to close out the contracts.

The Census Bureau recognizes the potential deobligations and continued to inform Congress of these deobligations as they occurred. The House and Senate appropriations subcommittees were notified of the certainty of \$27 million in June 2001. The Census Bureau went further and identified an additional \$25 to \$30 million in FY 2001. This was consistent with the Census Bureau's commitment to identify uncommitted deobligations as they occurred. However, as is pointed out in the response to Recommendation 1 below, many of the contracts identified could not be deobligated at the time of the report because of the expectation of individual invoices.

We recommend deleting reference that funds could have been made available for other purposes.

Page 25, Weaknesses in Key Internal Controls. The Census Bureau acknowledges the GAO's accurate restatement of some of the findings of the March 2001 audited financial statement that was prepared by an independent auditing firm in the employ of the Office of the Inspector General. The Census Bureau recognizes that there is much that needs to be improved, but is concerned about the implied criticism of the use of contractor support. The Census Bureau's use of contractor support is entirely consistent with the intent of the Federal Activities Inventory Reform (FAIR) Act and the related Administration initiative on competitive sourcing. As with many of its other programs, the Census Bureau considers increased reliance on partnerships with the private sector in the delivery of its programs to be a powerful tool in the management of its programs. Also, on the particular point of management of undelivered orders, the GAO implies that "unsupported and inaccurate reported balances" led to poor financial management. The Census Bureau believes this is an overstatement in the case of obligations as is reflected in our response to specific recommendations.

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See comment 4.

Page 26, The Bureau's High Risk Internal Control Environment. The GAO again criticizes the use of contractor support, a criticism with which the Census Bureau disagrees. The GAO "concurred with an assessment of the Bureau's overall internal control environment by its auditor as high risk for FY 2000. This assessment was contained in the auditor's work papers, which cited a human capital issue in the Bureau's lack of experienced" The Census Bureau believes that it is not appropriate to reference an independent auditor's working papers as support for conclusions rendered in the context of the GAO's report. The independent auditor's individual working papers are not open documentation that is readily viewable by the Census Bureau or the public in general and do not, by themselves, form an overall conclusion for the audit. In fact, the reference cited was not included in the audit report issued by the Department of Commerce Office of Inspector General.

We recommend adding narrative to positively reflect the Census Bureau's implementation and use of contract support to supplement its financial management activity. We also recommend deleting the "working paper" reference.

See comment 5.

Page 28, Weaknesses in Financial Reporting, Difficulties in Preparing Financial Statements and Other Reports. The GAO states that "The bureau . . . did not have adequate procedures in place to produce timely or accurate financial statements and related performance data in accordance with Generally Accepted Accounting Principles (GAAP)." We recommend deleting "in accordance with GAAP." This statement as presented is not an accurate reflection of the narrative included on page 4 of the Census Bureau's FY 2000 Federal Managers' Financial Integrity Report and Attachment 1 to the Report.

See comment 6.

Page 33, paragraph 3. The GAO notes that "Year-end adjustments of \$65 million had to be manually posted, which did not occur until 7 months later on April 28, 2001." The Census Bureau believes that it is worth noting that, even though the adjustment was not applied to the financial management system of record until April 2001, the adjustment was identified and recognized during the financial statement preparation and audit process, prior to the end of calendar year 2000. The delay in posting the year-end adjustments to the financial management system of record was partially due to the Census Bureau's need to test revisions to the Final Close Program. The program could not be moved into a production environment until all testing was complete. As a result, the Census Bureau manually tracked year-end adjustments that were identified as part of the financial statement audit. By proceeding in this manner, the Census Bureau was assured that the adjustments would be properly posted to the system.

See comment 1.

Pages 26 and 35. The GAO report states that, in its view, the Census Bureau's financial management systems did not substantially comply with the requirements of Federal Financial Management Improvement Act (FFMIA) as of September 30, 2000. We disagree with this assessment and provide the following comments.

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The Office of Management and Budget (OMB) issued "Revised Implementation Guidance for the Federal Financial Management Improvement Act" on January 4, 2001. This guidance states that agencies are substantially compliant with FFMIA if they can:

- prepare financial statements and other required financial and budget reports using information generated by the financial management system(s);
- provide reliable and timely financial information for managing current operations;
- account for their assets reliably, so that they can be properly protected from loss, misappropriation, or destruction; and
- do all of the above in a way that is consistent with federal accounting standards and the Standard General Ledger (SGL).

We believe that the Census Bureau's overall financial management system complies substantially with all of the above criteria. Although the Census Bureau reported material weaknesses in its Federal Manager's Financial Integrity Act (FMFIA) report, we do not believe that they prohibited compliance with FFMIA. The OMB guidance further states that "Identified deficiencies that do not prevent the agency from meeting the above requirements generally should not be considered as part of a FFMIA compliance determination."

See comment 1.

Page 36. The GAO's draft report notes that the Census Bureau's systems did not substantially comply with the federal financial management system requirements as it could not provide reliable and timely financial information to manage current government operations and prepare financial reports. As previously noted, the financial systems supported a \$4.5 billion budget appropriated for the decennial census in FY 2000. The Census Bureau's financial management reports provided figures for the amounts appropriated, expended and obligated for each project under the Decennial. Census managers were able to effectively meet all statutory deadlines and complete Census 2000 operations on time and under budget.

See comment 1.

Pages 36 to 39. References are made to findings relating to the CAMS. Although management has concurred with some of the findings, we believe that CAMS substantially meets the Joint Financial Management Improvement Program (JFMIP) requirements. In FY 2000, an independent contractor conducted a JFMIP certification test of the CAMS Core Financial System software. Of the 176 functional core requirements tested, only nine were flagged as exceptions. We believe that meeting 95 percent of the required functionality demonstrates the system's compliance with government standards. However, we continually strive to modify and enhance the system to ensure compliance with evolving requirements.

The draft report also indicates that manual processes were necessary to reconcile or compile financial information, inferring that this does not meet FFMIA. OMB guidance on FFMIA states that "... FFMIA compliance itself neither requires nor results in ideal or state-of-the-art system performance or system efficiency; nor does it require that systems be entirely automated."

See comment 7.

Page 38. The report references the Census Bureau's accumulated transactions in the system as approximately 18 million. This is severely understated. At the time of the GAO review there were approximately 100 million transaction records.

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See comment 1.

Page 39. The report states that the Census Bureau's financial management system did not produce information that substantially complies with applicable federal accounting standards. We disagree with this statement. The GAO references OMB guidance, stating that a specific "indicator" was not achieved. However, the GAO omits from its report the complete OMB reference, which states (page 6) that "The indicators found on the following charts are provided as examples, not requirements." The finding references its examples as material adjustments required at year-end and the "significant errors" the GAO noted in the accounts payable and undelivered order balances. As previously noted, the Census Bureau disagrees with the adjustments cited by the GAO to the undelivered order balance. In addition, page 33 of the report notes that the adjustments to these accounts were not considered material to the financial statements. Based on the volume and dollar of activity at the Census Bureau during FY 2000, we do not believe that the year-end adjustments were material enough to warrant non-compliance with federal accounting standards.

See comment 1.

Page 40. The report states that the Census Bureau's financial management systems did not comply with recording transactions at the SGL level. This is not correct. All transactions are required to be recorded into CAMS using the SGL. The financial system appropriately uses the SGL accounts, and management works to ensure the posting models and attributes are consistent with those in the SGL.

Page 41, Review of Selected Areas, Bullet 2, Property and Equipment. The GAO questioned the Census Bureau's implementation of the Statement of Federal Financial Accounting Standard Number 6. In the Federal Financial Accounting Standards, Federal Accounting Standards Advisory Board (FASAB) Volume I, Original Statements, Statement of Federal Financial Accounting Standards No. 6, Sections 148-149, "the Board adopted a materiality approach—just as is done in private sector accounting. Each entity would establish its own threshold as well as guidance on applying the threshold of bulk purchases."

See comment 1.

Pursuant to the FASAB Standard No. 6, the Department of Commerce (DOC), of which the Census Bureau is a component, issued a capitalization threshold of \$25,000 for individual purchases. (See DOC Principles and Standards Handbook, Chapter 8, Section 6.08.) Compliant with FASAB guidance and the DOC direction, the Census Bureau changed the capitalization threshold from \$5,000 to \$25,000 in FY 1996. Following the guidelines established by DOC, the Census Bureau calculates the depreciation expense through the systematic allocation of the cost of property, plant and equipment (PP&E), less its estimated salvage value, over the estimated useful life of the PP&E, straight-line method. The standard useful life for ADP equipment is three years and for ADP software, motor vehicles, furniture and fixtures is five years.

In light of the materiality approach as adopted by the FASAB, the \$25,000 threshold is reasonable. A review of the undepreciated accountable property of \$158 million as of September 30, 2000, revealed that the capitalization policy was being followed. It should be noted that the bulk of expenditures on property and equipment for FY 2000 were spent on the

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short-term projects for decennial census. Non-depreciable property for FY 2000 was \$46 million; with an average price of \$1,900. This amount falls below the dollar value criterion for capitalization, whether at the \$5,000 or \$25,000 level. The Census Bureau's consolidated net cost of operations was \$4.3 billion; non-depreciable property represents less than 1 percent. It should also be noted that the DOC's total budget authority for FY 2000 was \$8.98 billion.

We recommend deleting the reference to accounting for property and equipment.

COMMENTS TO GAO'S RECOMMENDATIONS

Recommendation 1. Deobligate at least \$55 million for contracts GAO identified for which work has been completed and amounts are not needed to close out contracts.

We disagree. In accordance with the Census Bureau policy, the amounts noted above should not have been deobligated as of September 30, 2000. Census Bureau policy requires notification / certification to deobligate funds. Contracts are subject to proper closeout, which includes a final review of performance and any potential late cost determinations. It should be noted that the final closeout often occurs well after the period of performance has expired.

During the GAO review, there were a number of items not taken into consideration before conclusions were drawn:

- Proper notification required to deobligate the General Services Administration contracts was not received until April 2001.
- Acquisition Division (ACQ) provided documentation dated April 24, 2001, indicating that subsequent invoices were expected from TRW and, therefore, ACQ could not deobligate any funds.
- The responsibility/authority to deobligate contract funds resides in ACQ. The Census Bureau was not invoiced for work performed by many multi-tier subcontractors for months after the work was completed, which is a fully acceptable result of the type, size, and complexity of many of these contracts.

Status of Contract Deobligation – To date, the Census Bureau has deobligated over 50 percent of the \$55 million recommended in the GAO report. Any funds that are still obligated on cost-reimbursement contracts as of September 30, 2000, will remain until the contract is closed out and the indirect rates are audited, negotiated, and settled.

Lockheed Martin – Even though the contract period of performance for Phase II had expired, this does not mandate that the remaining funds should be deobligated immediately. As of the date of the review, the Census Bureau was still receiving invoices from Phase II of the Lockheed Martin contract. We plan to deobligate any remaining funds not necessary to complete the contract.

See comment 1.

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Young & Rubicam – In September 2000, we believed that the \$7 million that remained obligated for the advertising campaign was needed to pay outstanding invoices for media purchases and printing expenses incurred by the Government Printing Office. These remaining funds have been deobligated as of September 30, 2001.

Electronic Data Systems (EDS) Corporation – Even though the contract was complete on May 31, 2001, invoices for services rendered were received through August 2001. During the period June – August 2001, communications with EDS regarding contract closeout and deobligation of funding continued. Final reconciliation of the dollars available for deobligation was not reached until August 2001. The Census Bureau deobligated \$6.2 million in August 2001.

UNISYS - Contract closeout has been completed. The Census Bureau deobligated \$605,000 in May 2001.

Recommendation 2. Review the remaining \$90 million of undelivered order balances as of September 30, 2000, to identify and deobligate amounts not needed for those orders.

We agree. The Finance Division (FIN) continued to conduct quarterly reviews of all undelivered order balances during FY 2001. The FIN modified their approach during FY 2001 to include follow up communication with programs not responding to requests for updates and elevation of negative responses to the Comptroller and Associate Director for Finance and Administration for appropriate action.

Recommendation 3. Instruct accounting personnel to follow the written policy for establishing accruals and proper cutoff for goods and services received at year-end.

We agree. We concur with the GAO finding of approximately \$28 million under accrual. This is attributed to a combination of not receiving notification of an estimated accrual for recordation and FIN discrepancies in the calculated amounts noted in the finding and technician error.

The FIN and Accenture contractors conducted staff training on September 13, 2001, on the estimated accrual process to ensure proper recordation of accrual transactions at year-end. As changes to accounting personnel occur, FIN will continue to educate new personnel and provide refresher training to existing personnel, as needed.

Recommendation 4. Post accounting adjustments to subsidiary records in a timely manner.

We agree. The delay in posting the year-end adjustments to the financial management system of record was partially due to the Census Bureau's need to test the revisions made to the Final Close Program. The program could not be moved into a production environment until all testing was complete. As a result, the Census Bureau manually tracked year-end adjustments that were identified as part of the financial statement audit, prior to the close of calendar year 2000.

The decision was made to post these adjustments in the test environment and validate that the manual calculations tied to the audited financial statements prior to posting in the production environment. By proceeding in this manner, the Census Bureau could be assured that the adjustments were posting to the system properly. Once the updated Close Program was moved

See comment 6.

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into the production environment and the FIN was given the authorization, the adjustments were keyed into "test," the general ledger was validated, and the entries were then moved into production in April 2001.

Recommendation 5. Complete efforts to modify the Bureau's financial systems to produce usable accounts payable and undelivered orders subsidiary reports by vendor, close out thousands of completed transactions with small balances, and archive all completed transactions.

We agree. Action has already been taken. In concert with FIN, DOC CAMS Support Center, and the Financial and Administrative Systems Division, the Census Bureau can now produce both accounts payable and the reduction of outstanding completed transaction records.

The Census Bureau's government and contractor personnel worked closely with the Department's Office of Financial Management to develop, test, and implement several new Undelivered Order and Accounts Payable subsidiary reports. These subsidiary reports represent a substantial improvement over the existing Core Financial System reports in a number of ways including: supporting specific SGL accounts, providing access to detailed transaction information for specific documents and identifying specific transactions comprising 'unmatched' balances. Additional sorts are being developed for these reports, which will further support Census Bureau financial and management requirements.

Recommendation 6. Amend policies and procedures, which will require supervisors to closely review employee time charges and project codes to ensure more accurate project costs for salaries and benefits.

We agree. The Census Bureau concurs with this recommendation and agrees with GAO that it is important that employee charges to project codes reflect accurate costs for salaries and benefits. We are reviewing the procedures used in Census 2000, and, based on this review, we will modify those procedures as appropriate.

Recommendation 7. Reconsider the Bureau's property and equipment capitalization threshold, as the current policy did not recognize about 57 percent of the Bureau's total gross accountable property and equipment as of September 30, 2000.

We disagree. In the Federal Financial Accounting Standards, FASAB Volume I, Original Statements, SFFAS No. 6, Sections 148-149, "the Board has adopted a materiality approach-just as is done in private sector accounting. Each entity would establish its own threshold as well as guidance on applying the threshold of bulk purchases." See comments above relative to page 41.

See comment 1.

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Pursuant to the FASAB Standard No. 6, the Department of Commerce, of which the Census Bureau is a component, issued a capitalization threshold of \$25,000 for individual purchases (see DOC Principles and Standards Handbook, Chapter 8, Section 6.08.) Compliant with FASAB guidance and the Department's direction, the Census Bureau changed the capitalization threshold from \$5,000 to \$25,000 in FY 1996. Following the guidelines established by the Department, the Census Bureau calculates the depreciation expense through the systematic allocation of the cost of PP&E, less its estimated salvage value, over the estimated useful life of the PP&E. The standard useful life is 3 years for ADP equipment and 5 years for ADP software, motor vehicles, furniture and fixtures.

The following are GAO's comments on the letter dated December 7, 2001, from the Department of Commerce, U.S. Census Bureau.

GAO Comments

1. See the "Agency Comments and Our Evaluation" section of this report.
2. Our report clearly lays out the source and status of the budget variances we identified. We note that the bureau's restatement of our findings still concludes with the same dollar amounts we reported.
3. We have modified footnote 10 to add that the appropriation for Periodic Censuses and Programs established a 3-day notification period for reprogramming funds provided by the appropriation.
4. The bureau's increased reliance on private contractors was stated factually, and the scope of our work did not include determining whether the use of contractors was appropriate for the involved activities. The human capital issue described in the body of this report reflects a concern that the bureau did not have a sufficient number of experienced accountants familiar with the financial statement process and able to effectively monitor year-end reconciliations or provide needed accounting support on a day-to-day basis. While not specifically disclosed as part of an independent auditor's report on internal control, the assessment of the bureau's internal control environment as high risk by its independent auditor was supported by the auditor's working papers, which were within the scope of our work as stated in appendix I, "Objectives, Scope, and Methodology."
5. We have modified the report to indicate that the FMFIA weakness reported by the bureau seriously affected the bureau's ability to conform with generally accepted accounting principles.
6. The bureau's response presented new information on system testing that was not mentioned throughout our discussions with key bureau officials, up to and including our exit conference on June 15, 2001. However, in our experience, system testing is usually done on downloaded offline systems data so that online data needed for management are not altered, disrupted, or lost. To delay posting \$65 million of year-end adjustments for 7 months due to systems testing would, in our view, seriously hamper financial management activities. This is because, during this period, system personnel would be using automated screen inquiries for individual contracts that contain incorrect and misleading data and would have to refer to a

manual tracking list of adjustments, a cumbersome and error-prone process.

7. Bureau officials told us, in the context of accounts payable and undelivered order transactions, that about 18 million records accumulated since the installation of CAMS on October 1, 1997. The bureau's response that 100 million transaction records have accumulated since CAMS' inception provides further evidence that the bureau should develop archive capability to store millions of completed transactions in order to reduce volume and processing time and to highlight errors, duplicates, and larger balances.

Appendix V: GAO Contact and Staff Acknowledgments

GAO Contact

Roger R. Stoltz, (202) 512-9408

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